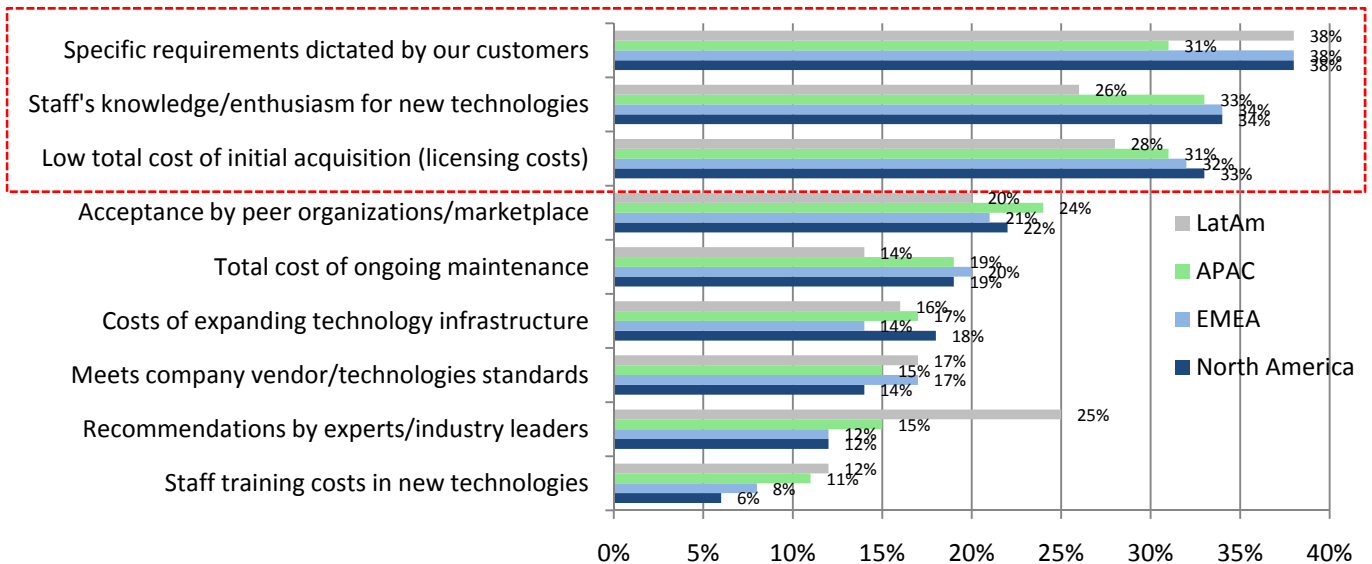


UNDERSTANDING THE NEEDS OF THE ISV COMMUNITY

In the summer of 2008, Microsoft® commissioned its research partner, Market Strategies International, to do an extensive study of the technical and business development needs of its worldwide independent software vendor (ISV) partner ecosystem (refer to Note on Methodology for more details). Because Microsoft seeks to build out its support resources and programs for this important partner segment, we explored their needs, target markets and pain points in depth. Following is a summary of key findings.

HOW TECHNOLOGY PLATFORM DECISIONS ARE MADE...

When asked to identify the most important criteria in selecting development platforms, ISVs say they are driven foremost by their customers' specific requirements. That's followed closely by "existing staff knowledge and/or enthusiasm to work with new technologies" and by low licensing costs.

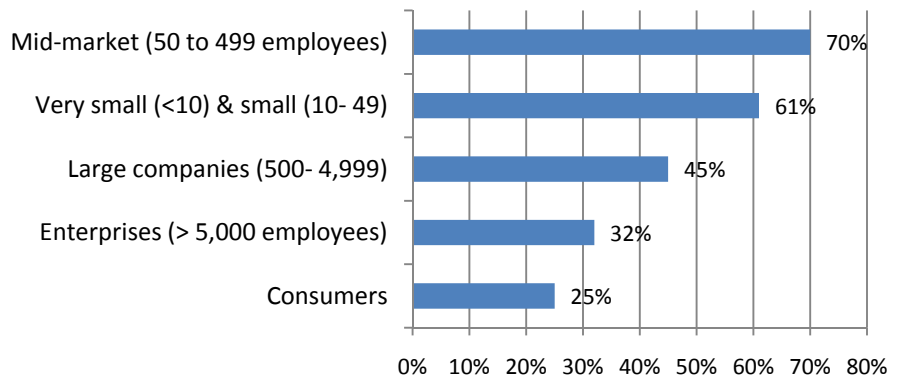


While licensing costs are a serious consideration, ISVs generally place low priority on training costs. Platform decisions are rarely driven by industry expert recommendations, with the exception of Latin America, which places far more emphasis on expert opinions.

WHAT MARKETS ARE TARGETED?

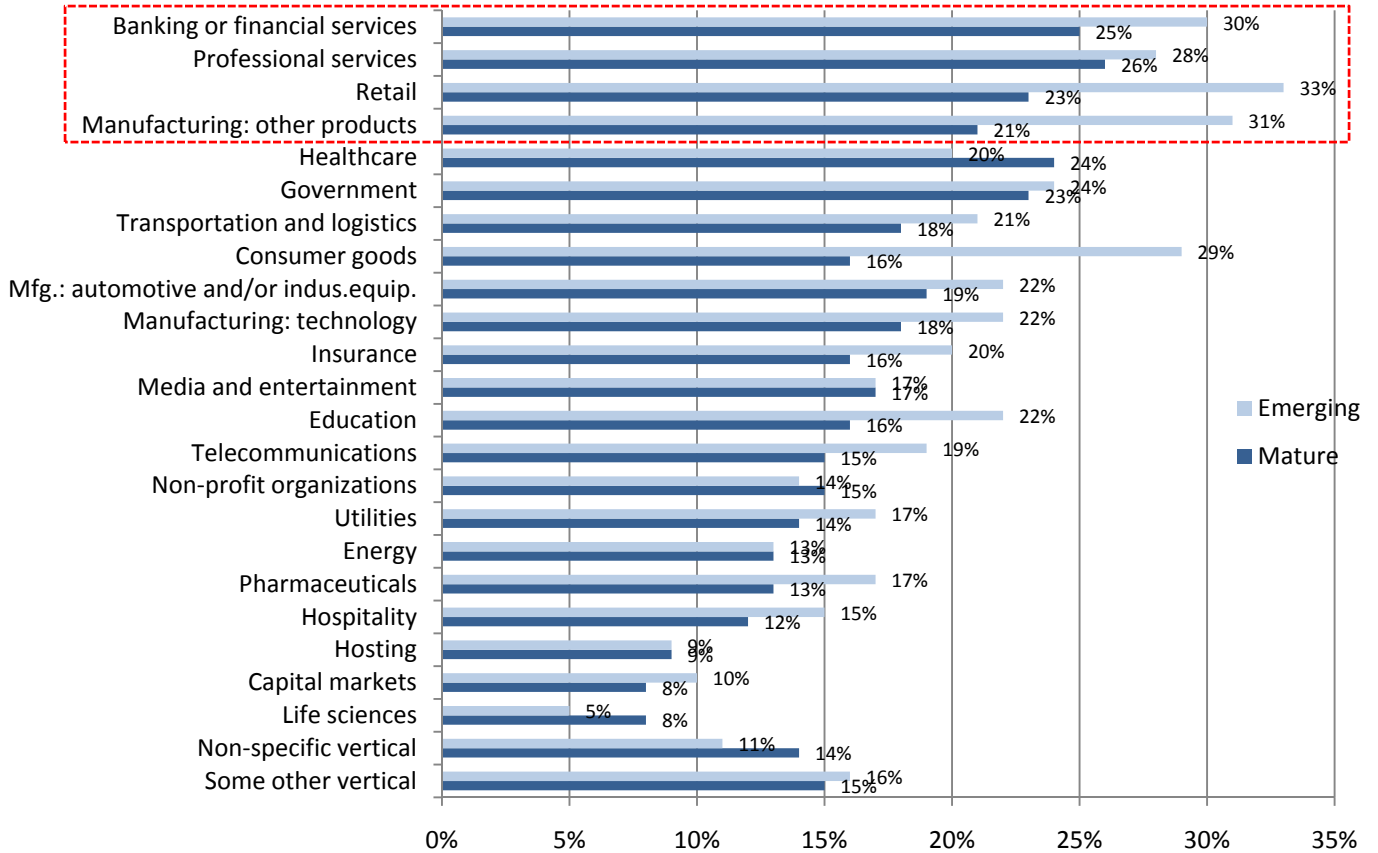
The sweet spot for the majority of ISVs appears to consist of small and mid-market businesses (SMBs). This may reflect the fact that there are far more SMBs than large organizations—as well as different levels of competition for enterprise accounts. Consumers are least frequently targeted.

Target Markets for Software Apps



VERTICAL MARKET TARGETS GENERALLY REFLECT THAT SMALL AND MID-MARKET TARGET ORIENTATION...

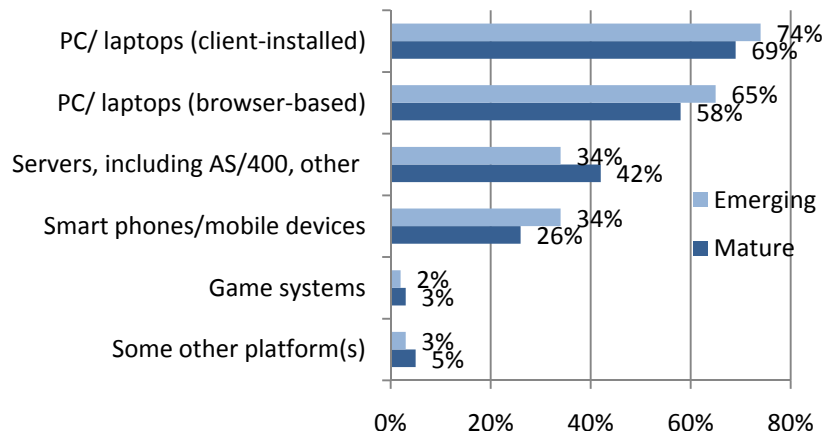
In both mature and emerging markets, banking, professional services, retail and non-heavy manufacturing companies represent dominant vertical targets. These businesses are typical of the mid-market and small businesses seen as the ISVs' predominant target sectors.



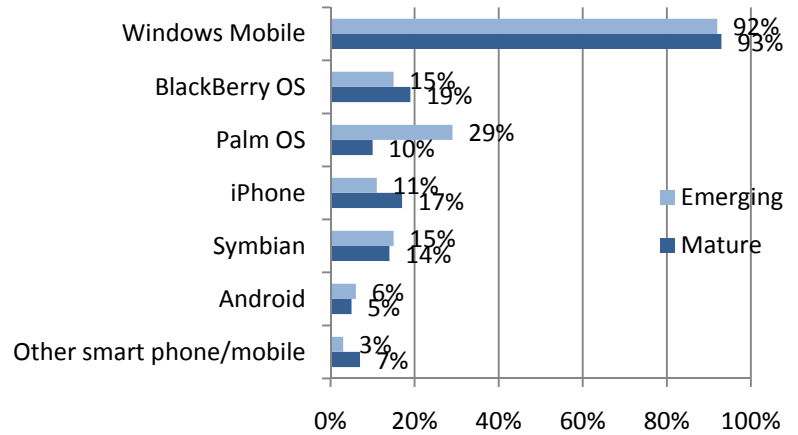
In emerging markets such as Latin America, we see a proportionally higher emphasis on retail, light manufacturing (“other products”) and consumer goods than we see in mature markets. In emerging markets, these verticals tend to be less dominated by large “enterprise” businesses than they are in mature, developed markets. This makes them a more approachable target for local ISVs.

PLATFORM TARGETS...

ISVs worldwide are predominantly focused on client-based and web (“browser-based”) applications. Mature market ISVs tend to be more active in server-based development than emerging market ISVs are. Conversely, emerging markets place greater emphasis on mobile applications, which is consistent with the relatively high incidence of cell phone usage in those areas.

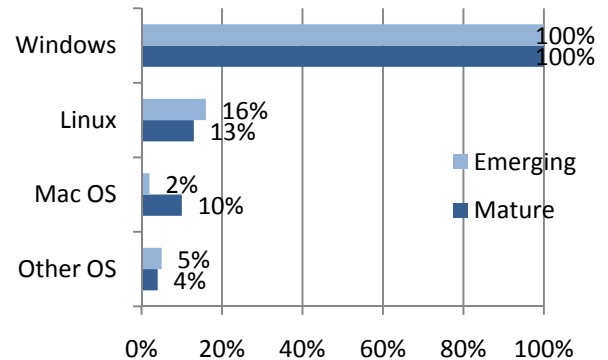


The fast-growing scope of mobile applications prompted us to ask developers which specific platforms they are targeting. As the respondents in this research are Microsoft ISV partners, not surprisingly, virtually all are developing in the Windows Mobile® platform. Palm OS, while no longer a major player in developed markets, continues to have a significant presence in emerging countries. The new iPhone platform is beginning to show traction in the developed, mature markets where it has been predominantly targeted.



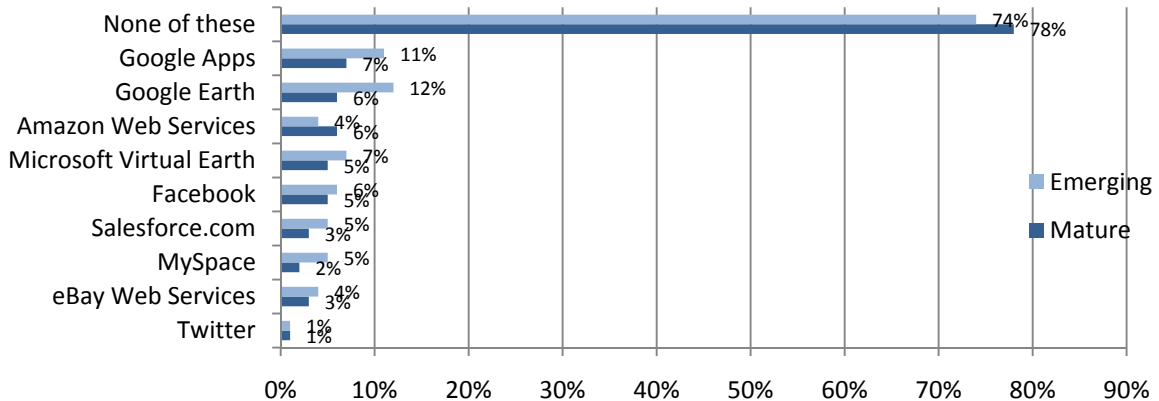
PC OS TARGETED...

Again owing to the nature of the sample (Microsoft ISV partners), all developers are developing for the Windows® platform. Many are also developing for the open source platform, Linux. Fewer are developing for the Mac platform, with most of those in developed, mature markets.



ARE ISV DEVELOPERS TAKING ADVANTAGE OF PROPRIETARY WEB-BASED APPLICATION PLATFORMS?

Popular web-based companies are seeking to influence developers to use their new and emerging development platforms. Their primary goals are to enable more widespread use of their proprietary tools and resources in web applications, and to facilitate the build-out of specialized applications within their sites.

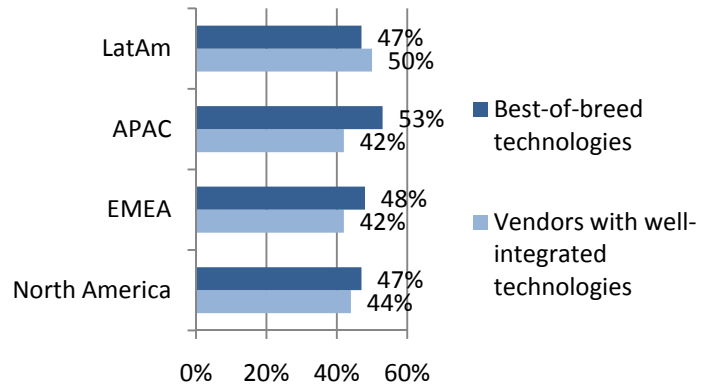


ISVs show only moderate attention to these platforms, although they have relatively more momentum in emerging markets. Nor does any single web property dominate ISV efforts.

“BEST OF BREED” VERSUS “WELL-INTEGRATED TECHNOLOGIES”?

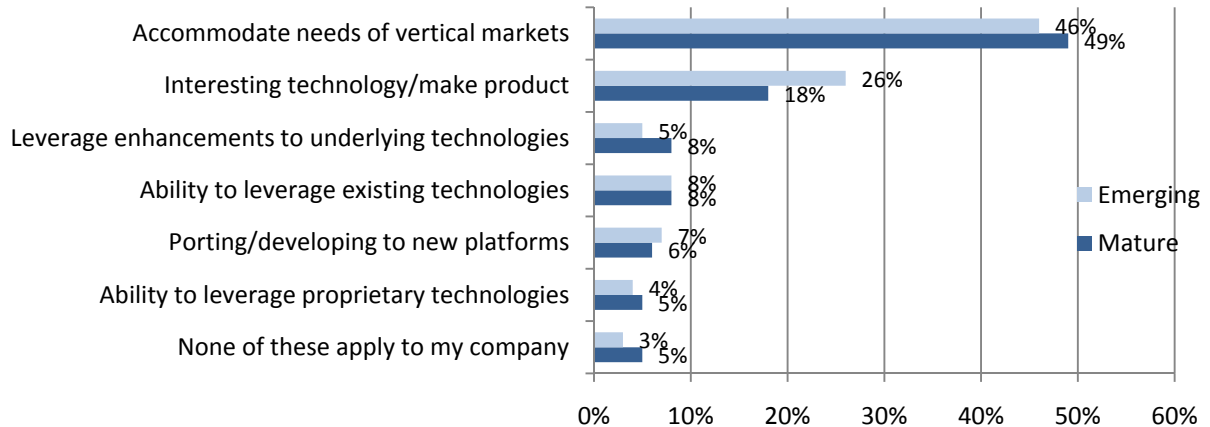
Developers are influenced in their choice of technologies by both the quality of specific technologies as well as how well vendors’ overarching technology platforms are integrated. We asked them to indicate which aspect was the major driver in their choices.

ISVs are roughly evenly divided in their perspectives, but “best of breed” appears to be slightly more influential in most regions, the exception being Latin America.



HOW ARE NEW PRODUCTS INSPIRED IN ISVs?

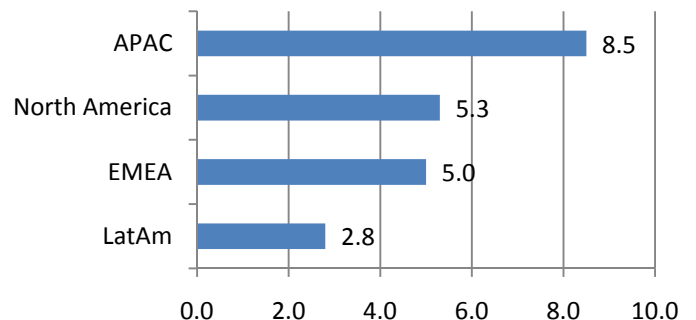
Not surprisingly, the majority of ISVs pursue new applications based on market needs (“accommodate the needs...of vertical markets”); they are driven by what they can sell. Interestingly though, a significant percentage also acknowledge motivation from the excitement of new technologies (“...figure out how to make a great product around it”), particularly in emerging markets.



HOW MANY SOFTWARE AND WEB APPLICATIONS ARE SUPPORTED?

ISV developers in the Asia-Pacific region tend to support the highest average number of applications, almost double the number supported by other developers. North America and EMEA are very similar, with roughly five.

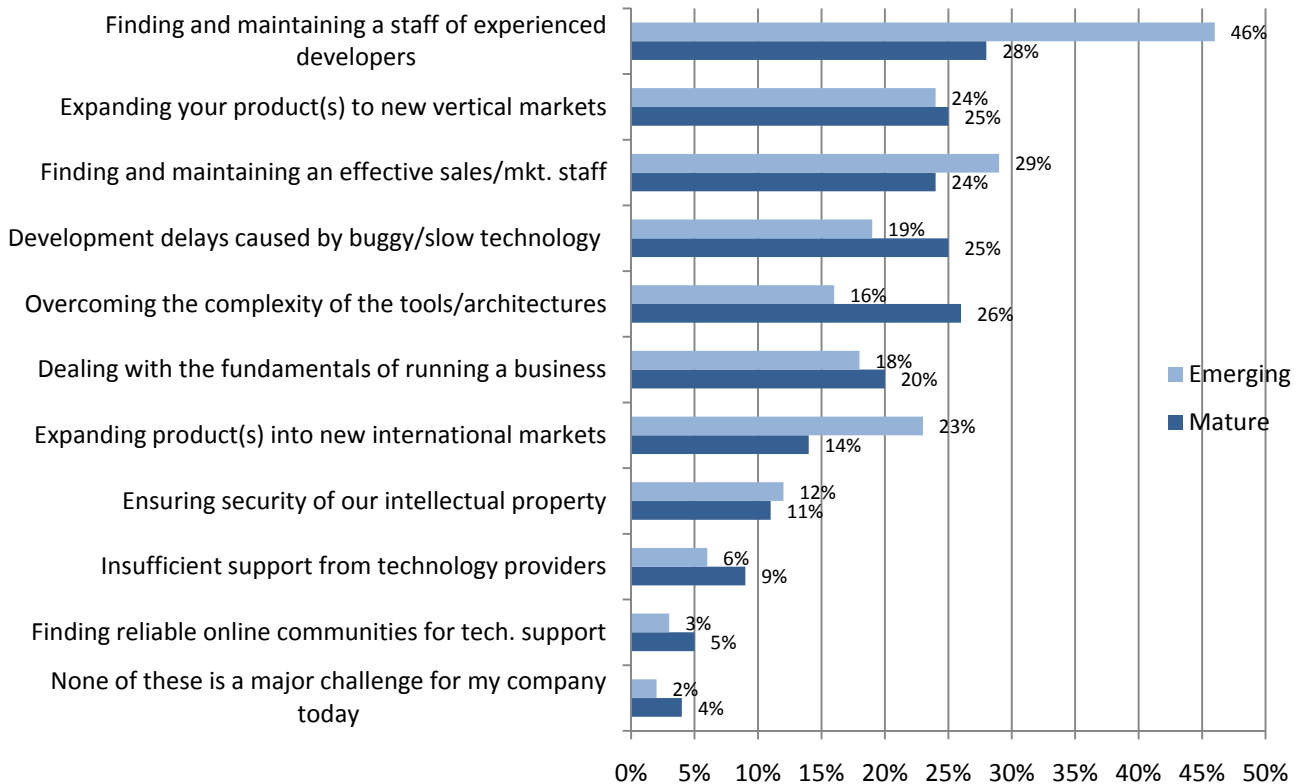
Latin American ISVs tend to have significantly fewer applications in their product offerings.



WHAT ARE THE DOMINANT “PAIN POINTS” FOR ISVs IN DEVELOPING THEIR BUSINESS?

A primary goal of this research study was to understand what areas present the greatest opportunities to help Microsoft’s ISV partner community develop their businesses. ISVs were asked to identify their largest and second largest challenges. Both are combined in the graph below.

Largest Pain Points



Overall, the predominant challenge is finding and maintaining experienced developers, with emerging markets indicating a disproportionate pain point here. Also, these less developed markets, seeking to leverage the value of their intellectual property, show considerable difficulty in expanding their products into larger international markets.

Mature market ISVs show considerable sensitivity to overcoming the complexities of tools and architectures, and developmental delays from platform bugs. They may be relatively more focused on these issues because fewer of their “most important” votes were cast for personnel availability issues compared to emerging markets.

Overall, the greatest challenge facing developers in growing their businesses centers around the technical complexities of development platforms, and the scarcity of experienced, knowledgeable employees in these areas. The key leverage point for growth in this sector is clearly expansion of the training pipeline for new professional developers.

NOTE ON METHODOLOGY

This research employed a web-based survey among 1866 randomly chosen Microsoft® partners in 8 countries and was conducted in 5 different languages. For reporting purposes, these countries were organized into four geographic sectors: North America, EMEA (Europe, Middle East), APAC (Asia-Pacific), and LATAM (Latin America).

The survey respondents represented a cross-section of independent software vendors.

Disclaimer

The information contained in this document represents the current view of Microsoft Corporation on the issues discussed as of the date of publication. Because Microsoft must respond to changing market conditions, it should not be interpreted to be a commitment on the part of Microsoft, and Microsoft cannot guarantee the accuracy of any information presented after the date of publication.

This White Paper is for informational purposes only. MICROSOFT MAKES NO WARRANTIES, EXPRESS, IMPLIED OR STATUTORY, AS TO THE INFORMATION IN THIS DOCUMENT.

Complying with all applicable copyright laws is the responsibility of the user. Without limiting the rights under copyright, no part of this document may be reproduced, stored in or introduced into a retrieval system, or transmitted in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise), or for any purpose, without the express written permission of Microsoft Corporation.

Microsoft may have patents, patent applications, trademarks, copyrights, or other intellectual property rights covering subject matter in this document. Except as expressly provided in any written license agreement from Microsoft, the furnishing of this document does not give you any license to these patents, trademarks, copyrights, or other intellectual property.

© 2008 Microsoft Corporation. All rights reserved.

Microsoft, Windows and Windows Mobile are either registered trademarks or trademarks of Microsoft Corporation in the United States and/or other countries.

The names of actual companies and products mentioned herein may be the trademarks of their respective owners.