

IBM undercuts Google with discount e-mail service

October 2 2009, By MICHAEL LIEDTKE , AP Technology Writer

(AP) -- IBM Corp. is trying to stymie Google Inc.'s expansion into the business software market.

The weapon: a bare-bones e-mail service that [IBM](#) is selling to companies for \$36 annually per worker, undercutting a more comprehensive package of software applications that Google sells for \$50 per user annually.

For that slightly higher price, Google is offering 25 times more storage: 25 gigabytes per account compared to IBM's 1 gigabyte per mailbox. Google also throws in word processing, spreadsheet and presentation applications, as well as a video channel. None of those features are included in IBM's package.

Even so, IBM believes its service, called LotusLive iNotes, can beat Google because it has a much larger sales force and relationships with corporate customers going back long before Google co-founders Larry Page and Sergey Brin were even born in 1973.

"This is trouble for Google," said Gartner Inc. analyst Matthew Cain.

Armonk, N.Y.-based IBM is responding to the increasing corporate demand for inexpensive e-mail that's run on computers owned by an external supplier instead of the company relying on the service. This approach has become trendy enough to get its own catch phrase - "cloud computing."

Mountain View, Calif.-based Google has emerged as one of cloud computing's chief boosters as it tries to generate more revenue from sources besides its dominant Internet search engine, which serves as the hub of the Web's most profitable [advertising](#) network.

After finding little initial success when it began peddling corporate e-mail in early 2007, Google's sales pitch has been resonating with more companies looking for ways to save money.

Other e-mail providers also are making inroads with similar discount services, so much so that Gartner predicts about 20 percent of U.S. companies will run at least some of their e-mail through Web browsers by 2012.

Without providing specifics, Google says its corporate users now number in the "hundreds of thousands." Some companies, including Fairchild Semiconductor International Inc., switched from IBM's premium e-mail service that costs substantially more than Web-based e-mail.

Now, IBM is counter-punching. IBM thinks the timing for its e-mail alternative is ideal, given that Google's service suffered a highly publicized outage that locked out corporate customers for nearly two hours last month.

"Candidly, Google has shown itself to be weak" in some areas of e-mail, said Sean Poulley, an IBM executive overseeing the company's e-mail service. "There is a world of difference between supporting a consumer-grade service and a business-grade service."

Dave Girouard, who oversees Google's e-mail and other services tailored for companies, responded that Google will learn the ins and outs of selling software to businesses more quickly than IBM will adapt to cloud computing. He said [Google](#) isn't planning to lower its prices.

What's more, IBM probably will face some of the same financial conflicts confronting any long-established vendor trying to cater to a new, less expensive niche in its market. IBM and other rivals, such as Microsoft Corp., stand to make more money selling more sophisticated e-mail services and software applications that are installed in the computers maintained by the customers.

That means IBM runs the risk of making less money if most of its customers switch to the newer approach, with e-mail hosted off their premises. But by keeping the storage limits relatively low and skimping on other e-mail features, IBM has narrowed the field of businesses likely to buy the service. IBM expects the customers to include small and medium-sized businesses, or larger companies whose employees who aren't tethered to an office desk.

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