Market Roundup

January 18, 2002

This Week

Bush Administration Plans/Abandons Anti-Trust Oversight Announcement

By Charles King

On January 4, 2002, the Department of Justice announced a "modernization" of its anti-trust division, including the creation two new permanent work groups, the Telecommunications and Media Enforcement Section, and the Networks and Technology Section. The FTC announced a news conference planned for January 17, 2002 where FTC Chairman Timothy J. Muris and Charles A. James, Assistant Attorney General for the DOJ's Anti-Trust Division would unveil an agreement between the two agencies concerning clearance procedures for anti-trust violations. According to news reports, these new procedures would shift oversight for reviewing mergers in the Internet, software, entertainment and telecommunications industries from the FTC's five person, bi-partisan review commission to the DOJ, reversing six decades of precedent and making the DOJ responsible for mergers among cable, publishing, toy, game, television, radio, advertising, music, movie and newspaper companies. While the news conference was scheduled to begin at 1:00 p.m. EST, the FTC and DOJ representatives never appeared. Instead, the event was cancelled and all questions were referred to the DOJ.

Our interest was piqued by the DOJ's original plan to "modernize" its anti-trust efforts, since for decades the U.S. economy has been shifting from traditional manufacturing processes toward service-based business. In the brave new 21st century, many commercial services depend on content and access, which are part and parcel of the technology, telecommunications and entertainment industries where most serious current and potential anti-trust cases have also occurred. Given that, it is no surprise that the DOJ wishes to plant a few high-profile flags in this active territory. However, we are far from sanguine regarding the shifting of anti-trust responsibility in these areas from the FTC to the DOJ. The original decision to place oversight in the hands of the FTC's review commission was to remove the decisions for pursuing often-controversial anti-trust cases from back room deal mongering. In other words, the system as it stands makes as good practical and political sense today as it did when it was conceived.

If that is truly the case, why is the Bush administration interested in shifting the balance? In two words: *laissez faire*. Since taking office last January, the President has pursued an economically conservative path, staying on the side of business and keeping consumer, union and environmental groups out of the policy process. Given the President's predilections (and his Attorney General's similar leanings), seizing turf from a compliant FTC is no surprise. So what happened to today's pre-arranged handing over of the

900 Veterans Blvd, Suite 500
Redwood City, CA 94063-1743
650·366·0700 fax 650·649·2302
Europe (London) 44·020·7900·2819

sageza.com
info@sageza.com

anti-trust keys between the agencies? In a word: Enron. Since the DOJ's original January 4 announcement, the news has been inundated about the stunning collapse of the energy-trading giant. Since evidence suggests that Enron's largess toward the President (along with a host of his cabinet and advisors, and members of Congress) apparently bought the company considerable influence within the Beltway, cooler heads apparently surmised that this is not the best of times to tear down a firewall between business shenanigans and political influence peddling. They would be right, of course. But the fact that these same advisors supported such a specious deal in the first place suggests a sorry lack of personal character and moral acumen.

Microsoft Announces XML Web Services and Office XP Toolkits

By Clay Ryder

Microsoft announced on Monday the availability of the Office XP Web Services Toolkit and the Smart Tag Enterprise Resource Toolkit that will enable developers to deliver XML Web Services data directly into Office XP. The Web Services toolkit enables developers to discover XML Web Services using the UDDI (Universal Description, Discovery and Integration) service and integrates Web services directly into Office XP solutions from within the Visual Basic for Applications editor. The Smart Tag toolkit provides a roadmap on how best to plan, architect, implement and deploy robust and scalable smart tags within the enterprise through sample source code which illustrates how Web Services can be structured to develop an enterprise smart tag solution, along with a set of whitepapers on planning, implementing and deploying enterprise smart tags. The toolkits are now available as a no-cost download from the Microsoft Developer Network Web site.

While some may see this announcement as further proof that Microsoft is forcing .NET and other unwanted technologies into the enterprises ("Give me a simple word processor and nothing else!"), we regard this event as the continuation of the path that Microsoft started down back with its Office97 release. Since that time, it has been apparent that Office was undergoing a metamorphosis from a bundle of shrink-wrapped desktop productivity applications, to a collection of network savvy functions that manifest themselves in a variety of combinations. In many cases, as least from a software perspective, it is hard to know where Word ends and Excel begins, or just how much of any given user interface is borrowing from Internet Explorer's HTML engine. Adding Web Services into the mix only drives Office down the path of sharing functionality and other resources across a variety of programming instantiations. This is not to be taken as a call for software bloat solely for the purposes of world domination, but rather the realization that Office has been and continues to evolve into a collection of functions that not only exist within the context of the desktop, but are also available through the network.

Office is probably one the most significant producers of "unconscious" programmers, i.e., people who are performing complex daily tasks with tools such as Excel which in effect let lay users program while not even aware that they are doing so. Web Services proffer additional functions for desktop users who will not be aware of the physical location of the software. More importantly, they will not care. This computing reality is an important realization along the path to what we dub Service Computing, where the location of software, data, and access device are increasingly irrelevant in the delivery of business information to the user. While we do not believe the mere availability of Web Services and Smart Tagging toolkits in and of themselves will be sufficient to drive Service Computing to fruition, they nonetheless shed some additional light on the future thinking of the Redmond giant. Additionally, they serve to remind us all that the value proposition of the disconnected, solitary computer desktop in the enterprise continues to wane.

Compaq Announces FC-IP Technologies for Data Replication

By Charles King

Compaq Computer has announced the immediate availability of qualified Fibre Channel and Internet Protocol (FC-IP) technology to implement global data replication networks. The company's new StorageWorks FC-IP technology, which Compaq publicly demonstrated in September 2001, allows enterprises that utilize Compaq's SAN-based data storage solutions to leverage existing IP networks for disaster recovery and business continuance processes across geographically dispersed locations. Along with its own SANworks DRM solutions, Compaq also offers data replication solutions for Oracle and Giant Loop Networks. In addition, the company broadened its offerings in Metro Area Networks by announcing support for Wave Division Multiplexing (WDM) solutions from Cisco Systems and Controlware. Compaq's storage technology partners CNT, SANcastle and SAN Valley, have completed product interoperability testing for StorageWorks FC-IP and are ready for implementation. Cisco's and Controlware's products have completed WDM interoperability testing and are ready for production use. Pricing for solutions utilizing Compaq's FC-IP technology were not included in the announcement.

The full import of Compaq's FC-IP announcement may be lost on anyone not enamored of data storage topics, but it reflects a pair of issues that have become increasingly resonant during the past four months. As a bit of background, with the explosive growth of data storage continuing, there have been ongoing debates over which networking solution is most appropriate for transferring information from primary data centers to remote data replication and disaster recovery sites. Given Fibre Channel's inherent geographical limitations, many storage traditionalists prefer dedicated optical solutions, whose robust performance capabilities belie their high cost. However, a growing cadre has voiced support for technologies that can operate over existing (i.e., inexpensive) IP networks. For many, the debate has been framed as an either/or quandary, where performance trumps cost, or vice versa. In this heady environment, Compaq's new FC-IP technology draws a line firmly in the sand equidistant between the two camps, suggesting that the optimum solution is one fashioned from the best elements of both. While products based on Compaq's FC-IP technology will not offer the performance of dedicated optical networks, they also do not sport those systems' jaw-dropping price tags.

Why should this matter? Given the continuing tough economic times, businesses across the board are looking wherever they can for ways and opportunities to save precious resources. For that reason alone, Compaq's offering will likely turn some heads among their large base of storage clients. Beyond that, the changes in the business environment since the terrorist attacks of September 11 have sparked enormous interest in data security and disaster tolerance. To that end, many enterprises are investigating the best means for replicating their business-critical data, and some are considering relocating disaster recovery facilities far from their primary data centers. Compaq's new FC-IP technologies are likely to play especially well this scenario, allowing businesses to craft data replication solutions that are both affordably deployable in the short term and strategically useful in the long.

An Old Idea Is New Again: Safeway.com Launches in Portland

By Clay Ryder

Safeway announced Tuesday the launch of Safeway.com, the company's Internet grocery shopping and home delivery service for consumers living in the Portland-metro and Vancouver, Washington area. The new online service will be offered through GroceryWorks, an Internet-based home shopping service that is 50% owned by Safeway and 35% owned by Tesco, the leading food retailer in the UK. Orders are

900 Veterans Blvd, Suite 500
Redwood City, CA 94063-1743
650·366·0700 fax 650·649·2302
Europe (London) 44·020·7900·2819

sageza.com
info@sageza.com

processed at a nearby Safeway store and are loaded into a temperature-controlled truck where a Safeway.com courier delivers the order to the customer. Next-day delivery is available seven days a week with same-day delivery available for orders placed before 10 a.m. Online customers may participate in any of Safeway's loyalty programs and receive the same sale or bonus prices offered at the local Safeway stores. The delivery service costs $9.95 in addition to the grocery bill; no minimum order is required.

What a difference a year or two makes. While 1999 saw the rise of Home Grocer, Webvan, a reinvigorated Peapod.com and many other Internet grocery delivery services, in 2001 we witnessed the retrenchment of Peapod and the stagnation of Webvan, along with its total collapse. At the same time, the giants of retail groceries appeared to simply sit on the sidelines and do nothing. Who could blame them? Given the sorry track records of online grocers, why would one of the largest retail grocery chains decide to enter this market? There could be many answers, but lining up to be the next Webvan is probably not one of them.

However, while many of the high profile grocery delivery services failed, we do not believe their demise was due to entirely to home delivery being a bad idea or that there was no market for the service. Rather, we believe it was that the dotcom competitors lacked significant vertical industry expertise, and leverageable scale. For all that was written about Webvan's 8,000 order-a-day-capable warehouses with miles of high tech conveyer belts, one simple fact was overlooked. In the quest for scale and efficiency, Webvan had no existing infrastructure and customer base to leverage while moving forward — it all had to be built, and with borrowed money besides. The company's ambitious growth plans and low-capacity utilization only compounded its task. This is, however, in sharp contrast to Safeway and Tesco. Since these players already have the infrastructure, buying power and expertise in groceries, adding a delivery service is a relatively low-risk endeavor compared with the creation of a whole new infrastructure. Additionally, the company is starting with a single test market, rather than attempting to grow multiple markets before any achieved profitability. This more conservative approach along with the deep pockets of an existing global business may allow Safeway.com to achieve the profitability that alluded Webvan and others. So while the big boys may have appeared to sit out the dotcom and dot-bomb gold rush on the sidelines, perhaps this more measured approach may ultimately prove successful whereas the more flamboyant initiatives of the late 20th century did not.

900 Veterans Blvd, Suite 500
Redwood City, CA 94063-1743
650·366·0700 fax 650·649·2302
Europe (London) 44·020·7900·2819

sageza.com
info@sageza.com