



Market Roundup

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HP Launches Newly Merged Company

By Charles King

Two days after the legal close of its merger with Compaq Computer, HP officially launched the new company and announced details regarding company strategy and product roadmaps. According to HP, new business and functional organizations are in place with management teams named three layers deep. Dedicated account teams have been appointed for HP's 100 largest global customers, and the company announced strategic efforts aimed at vertical industries including financial services, manufacturing and process, and communications. Detailed product roadmaps were announced for business and consumer products, and HP's OpenView brand will be adopted for all systems management software. HP launched a new company Web site in six languages and nine countries, and will be fully deployed in all countries where legally permissible within sixty days.

After months of public whining, litigious drama, and miscellaneous hue and cry, it is a relief to see the "new HP" officially launched. More than that, it looks as if HP has successfully delivered on the first phase of a highly complex merger. The three-deep management appointments include nearly as many Compaq vets as HP stalwarts, undermining the claims of many who believed that the deal was more about subtracting a rival than adding core capabilities. Likewise, the newly announced product sets support issues we have discussed since the merger was announced last fall. Many detractors claimed that this deal was all about PC sales and that so much overlap existed between HP and Compaq's other solutions that the inevitable sacrifice of Compaq products on HP's altar would push droves of terrified customers toward the exits. To our way of thinking while overlaps did exist (notably in workstations and high end servers), the assets of both companies could be successfully exploited if dealt with evenhandedly. We were happy to note that the new product sets, which rely heavily on Compaq products in Intel servers, fault-tolerant

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servers, business PCs, and notebooks and handhelds, suggest that pragmatism, not HP cheerleading, led the day.

Does that mean the deal has crossed the finish line finally and for good? Not quite, since a merger this size is more comparable to a decathlon than to a single event. While we believe HP has gotten off to a better start than many industry watchers believed (and many competitors hoped), a good deal of work remains to be done. Looking ahead, we see a pair of specific challenges. The larger of these might be described as a shortage of overarching strategy. Much of what was delivered this week was designed (or perhaps homogenized) to quell concerns among HP and Compaq customers and shareholders. While the new org charts and product sets are unlikely to scare many people out of the HP tent, we fear that few new customers will be inspired to come on in. In sheer size, HP may be the world's second largest IT vendor (behind IBM). Who the company is, what it means to the market, and their vision of where IT's future resides remains somewhat fuzzy, and this week's announcements did little to clarify the issue. Our second area of concern has to do with cultural issues. Traditionally, Compaq has been a highly disciplined organization that traded trust for responsibility among its workers. Historically, the enormous freedom HP granted to individual divisions and work groups, a vaunted aspect of the "HP way," resulted in both technological innovation and organizational confusion. What "way" will the new HP pursue? That remains to be seen, but if HP wishes to make this merger a complete success, we believe they need to address the lack of apparent strategic vision and the cultural blending as intelligently as they did the two companies' product sets.

A Game GRID—From IBM!

By Jim Balderston

IBM has announced that it is deploying a custom commercial game grid for the online video gaming in conjunction with Butterfly.net, a development studio and infrastructure provider to the online video game market. Butterfly.net specializes in Massively-Multiplayer games that allow users to connect via PCs, consoles, and mobile devices. The new Butterfly.net grid will allow massive multiplayer games to exist within a single "persistent-state" world, as opposed to being broken up into segments based on server usage. It will also allow for distributed artificial intelligence providing interaction between players and between the game itself and players, across the entire virtual game world. The grid will also allow game providers to run multiple games simultaneously, allocating resources as needed to more popular games. The grid allows for hot-swappable components, permitting game updates and patches to be made without taking the entire game down for repairs. Butterfly.net intends to demonstrate the new grid at the Electronic Entertainment Expo in Los Angeles on May 21.

IBM and others, notably Compaq — er, HP — have been talking about grid computing for some time now. While exact definitions may vary from company to company, the central theme is one of shared, flexible resources, network intelligence as it relates to resource allocation, multiple computer interconnection, and strong redundancy and fail-over capacity. In other words, a network of linked computers that is flexible and intelligent enough to handle the increasingly complex demands of modern enterprise networks. Given that grid computing has been largely focused on the enterprise, this announcement is a bit of dazzler, since staid old IBM has not really been known for its involvement in cutting edge media.

That is not to say that this is a misstep by Big Blue. Quite the contrary, for several reasons. First, the whole concept of grid computing — or even IBM's "autonomic computing" — has been a slow, arduous sales and

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education process to the world at large, and to increasingly skeptical buyers of IT products and services. Promises of self-healing, intelligent networks that require less and less human monitoring and intervention sound a bit fantastic to many IT buyers. Here IBM has a demonstration model that allows for intelligent resource management, massive user bases, complex computing tasks, resource allocation and modular updates and repairs. The second reason we believe this move to be a good one for IBM is that it makes good business sense. While IT vendors have focused heavily on enterprise markets, they must also come to grips with the needs of the media markets that are hoping someday to actually find a convergence point between television and the Internet. While one can argue just how far away that convergence is, one cannot dispute the idea that it will be attained on the back of complex, self-managed and flexible network infrastructure. IBM getting a leg up in this market could mean substantial new revenues in the future. For those competing with IBM who choose to ignore this space, it could one day be “game over.”

Going after SPAM, and Small Business Too

By Jim Balderston

McAfee.com has announced the availability of McAfee.com SpamKiller, a managed service designed to block unwanted emails to end users' mailboxes. SpamKiller connects to the users POP3 or MAPI email server and blocks emails from known spammers. SpamKiller also provides filtering against commonly used SPAM text in subject lines, body of the text, message headers, and country codes. SpamKiller also attempts to diminish future spamming by sending a false “bounced” message back to the sender indicating the mailbox is no longer functional. The idea here is to have spammers remove apparently invalid email addresses from their lists. SpamKiller can be configured to automatically send a complaint message to the system administrator at the spammer's service provider. SpamKiller also allows users to protect emails they do desire by creating a “friends” list, and stores blocked email for thirty days. McAfee.com has positioned this offering not only for consumers but for small and medium businesses as well. The one-year subscription to SpamKiller is \$39.95, with an introductory offering at \$29.95.

There is no doubt that spam has maintained its constant position as one of the most annoying features of the Internet experience. Spammers have continuously been creative in their ability to dodge enforcement. Spam lists are incredibly cheap and apparently very lucrative. SpamKiller joins McAfee.com's existing list of managed services, including antivirus, firewalls, privacy, and PC maintenance. In many ways SpamKiller is very similar to McAfee.com's antivirus service as it provides constant updates to the list of known spammers, just as the anti-virus offering maintains up-to-date profiles of known and new viruses. Such is the power of software as a service; its update capabilities are near real time with little or no intervention from the user.

Since spam is a constant and real annoyance, and there are no signs that it will be going away anytime soon, McAfee.com will have to maintain its vigilance in countering highly motivated spammers. As these types of services become more widely used, spammers will become more creative in their efforts to counteract SpamKiller and its related offerings. This is clearly not a rest-on-your-laurels situation. We do find it interesting to note that McAfee.com is openly pushing this service not only for consumers but for small and medium businesses as well. To date, McAfee.com has been primarily consumer-focused. By offering such services to SMBs it has the opportunity for up-sells and cross-sells with its other offerings, most notably antivirus and firewall services. SMBs are in the business of selling products or services. Most are not in the IT security space, just as they are not in the electric generation and distribution business or the business of providing their own telephone service. The fact that these services are not run by SMBs

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themselves does not diminish their importance to those businesses. It is apparent that key IT components — like antivirus, firewalls and anti-spam technology — will join the list of “cost of business” utilities that require little or no maintenance effort from the end consumer and may lead the future charge toward Modular Service Computing.

Weaving an Infrastructure Tapestry: The Next Generation of IBM WebSphere

By Clay Ryder

IBM has announced several new releases in its WebSphere software line focused on reducing the cost and difficulty of integrating disparate business applications and systems. The new releases include WebSphere Application Server 5.0, which supports new interoperability features that are part of J2EE 1.3; application integration through the Java-based J2EE Connector Architecture; and new security features among others. WebSphere MQ Event Broker allows organizations to publish subscription-based information across the network, Internet, or pervasive devices. WebSphere Business Integration 4.1 includes technology acquired from CrossWorlds Software and provides companies a way to automate business processes that integrate multiple applications that target customers, suppliers, partners, and employees. WebSphere Portal Version 4.1 will enable businesses to integrate information via Web services: applications can repurposed as portal applications and published to a UDDI repository. In addition, new WebSphere “enterprise modernization” tools are positioned to help customers reuse existing software to participate in a Web services world. These products will be available in Q3 2002. No pricing information was released.

WebSphere is certainly a growing and highly visible brand; one that has been helping IBM pursue its vision for middleware, Web services, and Modular Service Computing. As witnessed by the version numbers, this family of products hardly represents the new kids on the block, but besides the ongoing technological and feature advancement, there appears to be a change in how WebSphere is being positioned in the marketplace; namely that WebSphere is becoming a platform as opposed to a loose confederation of point products. These latest WebSphere technologies carry a strong message of integration and redeployment of existing resources. While this is not new, the collective capabilities expressed make it clear that organizations that want to embrace Web-based applications or create Web services can have a partner in IBM. Besides the benefits afforded customers, we believe these announcements shed light on future IBM strategies.

While we have heard a lot about GRID computing in recent times, many tend to think of GRIDs as a scaling and fortifying of hardware resources. But the reality is that the software platform typified by WebSphere is absolutely essential for GRIDs to function effectively. In this light, we believe it is essential for IBM's GRID initiatives to have a base software platform that from a technological and marketing perspective form an integral part of the solution, as opposed to point product(s) add-ons. This solution approach across a variety of hardware and OS configurations would give Big Blue some advantage over one of its chief UNIX competitors, Sun Microsystems, whose behavior with respect to Solaris 9, SunONE, etc., clearly indicates that even McNeely and crew recognize the differentiating power of software, especially network focused middleware, in the quest to compete for important hardware sales. Overall, we believe these announcements indicate that WebSphere has reached the next stage in its lifecycle: the

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recognition that the time is ripe to embrace a platform as opposed to point product strategy in order to maximum the opportunity not only for IBM, but its many customers as well.

HDS Announces TrueNorth, New Products

By Charles King

Hitachi Data Systems (HDS) has announced the TrueNorth initiative, which the company described as a strategy for open information management, along with complementary hardware and software products. HDS described TrueNorth as an open and collaborative storage management framework with policy-based automation tools, virtualization-assist capabilities, and storage systems. HDS is offering the HiCommand Management Framework, including the HiCommand Device Manager, an open standards (XML, SOAP & CIM) based message bus that HDS says will allow management components from Hitachi and participating ISVs to plug and play across hardware from Hitachi and other storage vendors. The company also announced the HiCommand Developer's program, which provides HDS APIs, support and a testing environment for participating ISVs. HDS introduced two models of the new Lightning 9900 V Series. The Lightning 9970 V is a small footprint single-cabinet unit that scales up to 9TB, and is designed to support mission-critical applications and small-scale consolidation. The multi-cabinet Lightning 9980 V can be scaled up to 75TB of raw capacity and used for larger scale data pooling and information sharing. The 9900 V systems feature a virtualization-assist layer that HDS says can mix multiple heterogeneous servers on a single port. No pricing or availability details were included in the announcement.

While there is a good deal to chew on in these HDS announcements, it is probably wise to consider what the company's TrueNorth initiative does and does not offer. On the plus side, the new Lightning 9900 V systems provide a major step up for HDS, with triple the bandwidth and double the cache of previous 9900 series boxes. HDS's claim that the 9900 V machines can be used to consolidate storage and simplify management (thus reducing overall costs) is a believable notion backed up with serious hardware, and is a model being pursued in one way or another by virtually every storage vendor. Likewise, the open standards basis of the company's HiCommand Management Framework fits in with current trends in and out of the storage industry.

However, we found some serious quibbles with the company's virtualization assist layer, since mixing multiple heterogeneous servers on a single port hardly qualifies as true virtualization, where the storage from multiple networked devices is pooled into a single, centrally managed storage resource. In fact, HDS may have made a tactical error by equating this new feature with virtualization, therefore muddying the waters for future product releases. Additionally, we found ourselves suffering a bit of déjà vu while reviewing TrueNorth, since leveraging shared APIs, automated processes, industry standards and a dedicated developer's program sounds eerily similar to the WideSky initiative EMC announced months ago. This is not especially surprising, since the processes both initiatives focus on are at the heart of current trends in data storage. It is equally unsurprising that storage players are trying to leverage everything they can against the competition and the market's current instability to gain or retain turf. In the usual game of technology leap-frog, this initiative on its own merely provides parity with sector leader EMC, unless HDS can convince players such as long time ally Sun and perhaps new pal IBM to adopt, not just support, this framework as their own.

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EU Announces Plans to Tax Internet Sales

By Charles King

The European Union (EU) approved new rules that would require non-EU-based companies to collect value added taxes (VAT) on Internet-delivered products sold to customers in the EU's fifteen member countries. The new rules take effect on July 3, 2003. To legally offer digitally delivered products, non-EU companies will have to register with EU tax authorities and charge a VAT on all transactions delivered to EU citizens. The new VAT will be applied to products including computer games, software, e-books, digital magazines, and MP3 recordings, and will also apply to electronic services that are delivered or consumed online such as pay-per-view TV and radio broadcasts. EU companies currently collect VAT on products they deliver to EU bloc citizens, but will be exempted from collecting VAT for services they provide outside the EU. The U.S. Treasury department expressed ongoing concern regarding the new rules, after threatening in February to file a case against the new rules with the World Trade Organization. An EU spokesman suggested that a separate measure to charge VAT on "hard" shipped goods such as books or computer hardware could be considered in the future.

The new EU rules offer a fascinating view into an international battleground that has both everything and nothing to do with the Internet. The limited reach of the rules (to touch only digitally delivered products and services) suggests that the actual dollar amount of VAT collected will be relatively small. But it reveals basic difference in opinion of and approach to the Internet. In the U.S., Internet boosters have followed the "Golden Goose" theory of Internet promotion that suggests that collecting taxes on Internet sales will drive consumers back to real world strip malls (though it is interesting to note that despite the no tax policy, online purchasing remains a miniscule part of overall U.S. consumer spending). Europe regards the Internet as simply a product/service delivery system, like the telephone, that deserves to be taxed accordingly. Given the divergence in those two views, it is no wonder that the EU has long regarded U.S. Internet tax policies as inherently unfair. What will the net effect of the EU's new VAT rules be for U.S. companies? For one thing, without the tax-free incentive, we expect EU consumers are likely to look and shop nearer to home for future technology purchases. For another, since the complexities of collecting and paying VAT according to the EU's new rules will add layers of expense to a retail environment whose profit margins are already razor thin, we would not be surprised to see prices rise accordingly for EU customers. In other words, EU consumers will pay for these changes, whatever the outcome.

But from a purely practical standpoint, we are curious to see just how effective the EU will be in enforcing the tax rules against companies in countries not bound by EU regulations. Since the Internet is both everywhere and nowhere, what would happen if U.S. companies refused to play by (and the U.S. government refused to enforce) the new rules? That is a pithy issue, and one that begs the question why the EU decided to float the VAT in the first place. We believe the new rules should be considered a virtual shot across the bows of the U.S. ship of state. Despite giving doctrinaire lip service to the power of free markets, the Bush administration has been adept at backing subsidies for important industries/constituencies in this election year, first in the steel belt and more recently for farming concerns. But what is seen as mere support of critical industries at home is regarded as mere protectionism overseas. From that viewpoint, while the imposition of a new VAT on digitally delivered goods and services may be small potatoes, the EU's threat of a future VAT on hard delivered goods would be a very big deal, indeed. We believe that while the new EU VAT is likely to be a relatively minor issue overall, it proves clearly that globalization, like politics, remains essentially local.

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