Market Roundup

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This Week

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HP/NEC and Sun Explore Mainframe Alternatives

By Charles King

Hewlett Packard and NEC have announced they will collaborate strategically to deliver open, large scale, reliable solutions that offer speed, flexibility, and cost-effectiveness that exceed traditional mainframe environments. The companies will leverage each other's enabling technologies, including NEC's OpenDiosa, and HP's Utility Data Center and integrated Service Management. HP and NEC said they plan to market their new solutions at targeted U.S. financial services companies and Japanese global companies. In an unrelated announcement, Sun Microsystems declared that the company's "Blue Away" initiative, originally aimed at selling Sun mainframe rehosting services to IBM Numa-Q users, will target IBM's midrange capacity mainframe customers. As an incentive, "Blue Away" customers can receive a 10% credit when they trade in mainframe systems for Sun Fire Midframe (3800-6800) or high-end (10k-15k) systems.

To our way of thinking, the HP/NEC and Sun initiatives illuminate a pair of issues regarding mainframe computing, one essentially tactical, and the other potentially troubling. At this point, IBM holds a clear lead in traditional mainframe computing. Though many consider HP's (formerly Compaq's) Non-Stop servers to be equal to IBM products, it is unclear how the planned migration of all HP's servers, including the Non-Stops, to Intel's Itanium platform will affect mainframe performance. From that standpoint, it is perfectly understandable why some vendors are trying to seize a bit of mainframe mojo for their non-mainframe products. Sun, for example, has long equated mainframe rehosting on its UNIX-based servers with mainframe computing, and claimed last year that its StarCat 15k server possessed "mainframe-like" stability and reliability. Similarly, the HP/NEC initiative seeks to boost the companies' existing UNIX- and Intel-based product sets by defining them in terms of mainframe agility and reliability that are delivered at a fraction of attendant mainframe costs.

836 W El Camino Real
Mountain View, CA 94040-2512
650·390·0700   fax 650·649·2302
London +44 (0) 20·7900·2819
Munich +49 (0) 89·4201·7144
Amsterdam +31 (0) 35·588·1546

sageza.com
info@sageza.com

Are any of these products actually mainframes? Not by traditional measurements, and that is where the more troubling issue comes in. There was a time when mainframes were well understood as the undisputed choice for complex computing. As the world in general and computing in particular became more task oriented, the position and uses of mainframes were somewhat obscured. At the same time, IBM introduced a series of changes in their mainframe products. The venerable S390 mainframe brand mutated to the zSeries eServer, and further evolved when the company developed a virtual partitioning technology that could be used to divide a single z800 server into thousands of virtual Linux servers, a powerful solution for consolidating enterprise computing environments. IBM also moved some traditional mainframe technologies to the company's iSeries (AS400) servers, whose popularity has traditionally been strongest in the mid-market. The company also introduced the z900 earlier this year, an "entry-level" mainframe optimized for ebusiness tasks.

What, then, is a mainframe? That question and its answers are more complex and confusing today than they were a year or two ago. And as can be seen by this week's announcements from Sun and HP/NEC, confusion provides opportunities for those willing to seize them.

Sony, Microsoft Reprise Razor/Razorblade Business Model with Game Consoles

By Jim Balderston

Sony announced this week that it is cutting the price for its PlayStation 2 by one-third, from $299 to $199. The price cut will go into effect immediately. Sony PS2 is by far the market leader in game consoles, outselling both the Nintendo Gamecube and Microsoft's Xbox. Microsoft plans to announce price cuts for its Xbox at next week's Electronic Entertainment Expo (E3), in what many see as an attempt to gain ground on Sony in the marketplace. Presently, Sony enjoys a ten-to-one ratio in market penetration over the Xbox, and while many observers expected a price cut most were surprised to see Sony slash as much as it did. Presently, the Xbox has broadband connectivity capability. Sony plans to add a module for its offering later this year that will allow for both broadband and dial-up connections. Nintendo plans to offer similar features this fall. All three companies are initially looking at online interactive gaming as a growing market.

There was quite a bit of gasping in reaction to Sony's dramatic PS2 price cut, with many speculating that the media giant was deeply concerned with the impending market influence of the Xbox, despite its modest market penetration numbers vis-à-vis the PS2. In fact, we are surprised such cuts did not come earlier. It is no accident that price reductions from both Microsoft and Sony cuts come nearly simultaneously to the increasing interest of online interactive gaming. In essence, the PS2 and the Xbox are morphing into network access devices that easily can become much more than a mere gaming console.

Both Microsoft and Sony are playing the same game that the razor companies have played for years — sell the public a razor handle, and then get them locked into a never-ending cycle of buying razor cartridges. At first glance, one might think the razor cartridges here are the games themselves, but we believe there are much higher stakes in play here. Both Microsoft and Sony have considerable offerings that could be accessed through more robust connected game consoles. Microsoft not only has Web services in the works, but a growing content empire as well. Microsoft also hopes to sell a great deal of software for the provision of various digital services, a plan that may eventually provide the single largest provider of the company's future revenues. Sony, of course, has all sorts of audio and video content that can be delivered

836 W El Camino Real
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650·390·0700 fax 650·649·2302
London +44 (0) 20·7900·2819
Munich +49 (0) 89·4201·7144
Amsterdam +31 (0) 35·588·1546

sageza.com
info@sageza.com

over a network. Both companies are hoping that by establishing a toehold in living rooms across the world, they will have a leg up in delivering the services and content they already own. For both Microsoft and Sony, the real games are just beginning.

Internet Radio and Replay TV Upset the Apple Cart

By Jim Balderston

This week a judge in California issued a stay in the case against ReplayTV by Paramount Pictures Corp., granting SONICblue's (ReplayTV's owner) request for a stay in an earlier order that would have forced SONICblue to monitor its customers' usage of television recording devices. The case against ReplayTV centers largely on a user's ability to skip over commercials that have been captured in the course of saving a digital feed to the ReplayTV device. More court proceeding in June will clarify the issues in the case. In another venue, independent Webcasters and the recording industry squared off before a Congressional panel over the issue of royalty payments for music offered online. The two sides argued for and against the rate structure proposed by the Copyright Arbitration Royalty Panel (part of the U.S. Copyright Office), which has suggested that Webcasters pay 14¢ per user per song and that over the air broadcaster pay 7¢ per song for streaming the music online. Webcasters argued they would be put out of business by the royalty structure. The Recording Industry Association of America argues that artists and the recording companies are being denied lawful royalties by Webcasters.

It appears to us that all of this activity — in both these cases and many others — is evidence that digital media are forcing whole new pricing and delivery models on content providers. Paramount may demand that ReplayTV monitors its users' activities because it can think of no other way to protect its potential earnings — even going so far as to deeply invade customers' privacy in doing so. On the other hand, RIAA is asking for royalties that will simply shut down an entire set of content providers in demanding royalties that few if any can pay. Big media hasn't figured it out yet.

In the coming years, we suspect whole new revenue models will be have to be adopted by media giants of the world. There will be just too many ways the average consumer can evade charges demanded by the industry, and technology is only going to improve in this regard. We see much of the present activity of media providers as a rear-guard delaying action, one they hope will buy them enough time to come up with a means to protect their content while holding on to revenues. We believe such a new model will arrive at some point, and suspect that it will not include such invasive tactics as monitoring individual behavior. Regardless of what this model looks like, there is no doubt that it will require a substantial investment in sophisticated network infrastructure that will be available from only a very few very large technology providers. In short, here is a growth market for IT vendors, one that could be real music to their ears, as it were.

Sun Announces StarOffice 6.0

By Charles King

Sun Microsystems has announced general availability for StarOffice 6.0, the company's full-featured office productivity suite. StarOffice 6.0 is available in ten languages, and runs across multiple operating environments including Linux, Solaris, and Windows 95 through Windows XP. The new suite includes features for day-to-day office tasks such as creating documents, spreadsheets, and presentations, as well as integrated database functionality across all supported platforms through Software AG's Adabas D database engine. According to Sun, StarOffice 6.0 uses an XML-based file format, allowing it to work transparently with other productivity suites including Microsoft Office. StarOffice 6.0 has a U.S. MSRP of $75.95. For enterprise users, the suite is priced on a tiered per-user basis ranging from $50 to $25 based on volume. Education customers can purchase StarOffice 6.0 for only the cost of media (CD-ROM) and shipping.

To our way of thinking, StarOffice should be considered from both practical and strategic points of view. On the practical side, StarOffice 6.0 suggests that Sun has realized the fruition of a process that began when the company acquired Star Division in August 1999. Since making versions of StarOffice available for free online, Sun claims over 1.8 million downloads have occurred. How many of those downloads are actually being used is unknown. StarOffice 6.0 appears to provide all the application bells and whistles individuals and businesses need for creating documents, publications, spreadsheets, and presentations. Additionally, the suite's XML-based file format should provide more seamless interaction with other business applications, a critical issue when one product (Microsoft Office) dominates more than 90% of the market. While Sun's aggressive pricing tactics could sweeten the pot for many small businesses considering a move away from Microsoft, the total costs of switching vendors could well be prohibitive for larger enterprises to contemplate.

Given the difficulties of taking on a competitor (Microsoft) with an apparent lock on the market, it is reasonable to ask why Sun is pursuing StarOffice at all. Considering the historic and ongoing rancor that exists between the two companies, basic belligerence may have something to do with it. While the simple irritant factor between Sun and Microsoft should never be ignored, aspects of StarOffice touch a couple of Microsoft's most currently sensitive nerves. First, Microsoft's recent revisions in its business software licensing process have elicited complaints and resistance from corporate MS Office users. StarOffice may not peel off significant numbers of Office users, but it could grind away Microsoft profits by offering disgruntled customers a lever for negotiating more favorable MS Office licensing agreements. More important to our way of thinking is Sun's increasing focus on the Linux market. It is interesting to note that the company's press release lists Linux ahead of Solaris in platforms supported by StarOffice, a small detail that suggests to us that Sun is trying hard to position StarOffice as the office productivity suite of choice for open source adherents and environments. In the end, StarOffice's potential appeal among the growing number of corporate Linux users may be Microsoft's biggest worry.

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sageza.com
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