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Market Roundup

July 12, 2002

Intel Begins Shipping Itanium 2

By Charles King

Intel announced this week that it has begun initial commercial shipments of its Itanium 2 processors, and that Itanium 2-based systems and software are expected to be available beginning this quarter. Itanium 2 processors will feature 1.5MB and 3MB of integrated L3 cache, and will be available at 900MHz and 1GHz frequency speeds at prices ranging from $1,338 to $4,226. The new processors also provide advanced reliability features including an advanced Machine Check Architecture for intelligent error management and recovery. Additionally, the Itanium 2 is socket compatible with two future generations of Itanium family processors, allowing them to be easily swapped into existing Itanium 2-based systems. The Itanium 2 will be supported by the Intel E8870 chipset (due this fall) which will support two- to sixteen-processor systems using OEM custom switches. Later this year Intel will offer an Itanium 2-based four-way, 4U building block platform for enterprise and high performance computing environments. Intel announced that the Itanium 2 will support operating systems including Microsoft Windows Advanced Server and Windows XP 64-Bit Edition, HP-UX, and Linux from Red Hat, Caldera, MSC, SuSE, and TurboLinux. In addition, HP plans to port its OpenVMS and Non Stop Kernel to Itanium 2, and Microsoft plans to introduce versions of Windows .NET Datacenter and Enterprise Server for the platform. Enterprise software makers including BEA, i2, IBM, Oracle, Microsoft, SAP, SAS, and Reuters are supporting the Itanium 2. In separate announcements, hardware vendors including HP, IBM, SGI, Fujitsu, Unisys, NEC, and Bull announced plans to deliver Itanium 2-based products.

Depending on one's point of view, Intel's delivery of the Itanium 2 is a very big deal or no big deal at all. Surely from Intel's and its partners' standpoints, the arrival of the Itanium 2 qualifies as proof of Intel's long range plans to compete in (if not dominate) the enterprise and high end computing sectors. Those plans went a bit awry with the first generation Itanium products, which sported unexpected performance glitches that had many in the industry wondering whether Intel's high-end hopes were mere pipe dreams. Intel has released Itanium 2 benchmarking data that, if proven accurate in real world computing applications, suggests the company has put its house in order and is back on track. Even if those results are optimistic, the Itanium 2's spacious L3 cache, new reliability features, and next generation socket compatibility suggest that Intel has been listening seriously to its critics. Overall, we expect that the Itanium 2 will be greeted most warmly by Intel's myriad OEM and software partners, who have nearly as much riding on the new platform as Intel does.

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In particular, HP's serious commitment to Itanium family is certified by its aggressive rollout of new Itanium 2-based workstations and servers, and solidified migration plans for its high-end OpenVMS and Non Stop products.

That said, will Intel's Itanium-based ventures in high-end computing be a mere stroll in the park? Not if Sun Microsystems has anything to say (or do) about it. As the lone hardware vendor without an Itanium strategy in place, Sun has as much to lose from the success of the Itanium 2 as Intel has to gain. In fact, the benchmarking data released in support of the Itanium 2 focused almost exclusively on comparisons with UltraSPARC III performance, making it obvious that Intel sees Sun in its crosshairs. Given that and Sun's reputation as a less-than-shrinking violet, the company's response to Itanium 2 is likely to be aggressive and forthright. We expect Sun to cast aspersions on the Itanium 2 by highlighting disappointment around the first generation Itanium processors, and to focus on its own lengthier high-end computing experience and the performance of its high-end RISC-based processors, ignoring the heritage in high end computing enjoyed by many of Intel's OEM partners. Is this fair? Not especially, but what is in life and business? Overall, we see the Itanium 2 representing an incremental step in Intel's greater company and product plans, which at one level resembles a tortoise and hare competition (with itself cast as the hard-shelled contestant). If Intel succeeds at bringing business customers to the new and upcoming generations of Itanium, it (and its partners) could eventually squeeze Sun at the lower end of the enterprise market, gradually pressing the company into a smaller, tighter, and ultimately less profitable corner of high end computing. That is why the rhetoric around the Itanium 2 has been so heated, and why we expect the coming battle to be a doozy.

Not All Dotcoms Lose Money: McAfee.com Announces Q2 2002 Earnings

By Clay Ryder

McAfee.com has announced its results for Q2 2002. Revenue for the quarter was $20.7 million, up 10% over first quarter revenues of $18.8 million, and up 44% from the same period a year ago. Pro-forma net income for the quarter, excluding the amortization of intangibles and charges related to the tender offer from NAI, was $4.7 million or $6.4 million including such charges. The company indicated that total unique paid subscribers and total active paid subscriptions through McAfee.com and its Global Affiliates have surpassed 1.73 million and 2 million respectively and that it gained 155,000 net new subscribers during the quarter. The average sale per subscriber increased to $33 and the ratio of total subscription services to total subscribers increased to approximately 1.21. McAfee also stated that its McAfee.com Security Center, launched in April, was very successful in converting trials to paid subscribers and that its managed security services for the SME market, McAfee.com for Business, showed a 25% increase in the number of customers. Additionally, the company highlighted a new marketing and services agreement with AOL, an OEM agreement with e-Machines to pre-load trial versions of anti-virus and firewall protection on consumer PCs, and its plans for the next generation of Web-based security services (dubbed Grid Security Services) as significant achievements during the quarter.

During the last few months, more than a few drops of ink have been spilled about McAfee.com, some of it good, some of it bad, and some of it sideways. While the on-again/off-again offer from NAI to buy out the remainder of McAfee.com undoubtedly continues to be a distraction, it is clear that some good fortune has been bestowed upon the company's revenues, margins, and customer base. The second quarter represents a significant turnaround in McAfee.com's profitability, but it also illustrates that this profitability was achieved through growth in the customer base as well as growth in revenue per customer. In these dizzying times where cost cutting (as opposed to the unrealistic growth mantra of a few years back) is too often seen as the path to financial salvation, it is encouraging to see a dotcom business grow profitability.

So why is McAfee.com facing success now? Perhaps it has to do with achieving the critical mass necessary to offset the fixed cost of doing business, or more directly, having more customers who buy more products while also spending more each time. Additionally, the market appears to be responding positively to the company's vision. Virus, spam, content filtering, correct firewall, and application configuration are all dynamic issues

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that require continuous updating to be effective. Gone are the times where updating prophylactic software every six months or updating virus definitions every two weeks is sufficient for protecting computing resources. Today's online environment demands a proactive, continuously updated solution that provides dynamic monitoring and protection of a computer's configuration, security software, and network connectivity. This cannot be achieved through the shrink-wrapped-only approach, but requires leveraging Internet connectivity to notify and update desktop security. Perhaps most interesting of McAfee.com's efforts is the company's Grid Security Services, a reflection on the potential future composition of network computing morphing into commercial, non-commercial, and ad hoc GRIDs. Such an enormous many-to-many network relationship is sharply different from today's Internet, and could provide numerous services and capabilities to end users and businesses alike, while at the same time demanding integrated safety, security, and monitoring. The need for neighborhood watch programs for these GRIDs will be paramount, and perhaps this is exactly what Grid Security Services will target. No matter what the future might hold, McAfee.com has demonstrated a working, profitable dotcom business — something to be proud of at any time, but especially today.

Nokia and IBM: Music to Whose Ears?

By Jim Balderston

IBM and Nokia have announced an agreement to offer digital content delivery to mobile devices, including cell phones. Under the planned agreement, the two companies will work to provide wireless service providers with the ability to offer content management and delivery to cell phones, including, initially, polyphonic ring tones and Java games for wireless devices. The two companies will combine the features of the Nokia Delivery Server with IBM's Digital Media Factory framework. IBM will license Nokia's Delivery Server which will become part of the Digital Media Factory offering. As part of the agreement, the two companies will work together within the Open Mobile Alliance to create standards for Digital Rights Management (DRM) to protect what the two companies called "higher value content." The goal of the agreement, according to the briefing provided by the companies, is to provide a "trusted media delivery platform" so that content owners will "release higher value content." The announcement and briefing set no timetable for delivery of this new offering.

While details of an actual rollout plan were non-existent in this announcement, we can't help but see some intriguing possibilities and challenges to the idea of providing "high value content" to cell phones. IBM and Nokia did present some market forecasts for the growth of new mobile services — but for Europe only. And that makes sense when one considers that European wireless networks have adopted G3 technology for their phone systems, offering a uniform and largely standard environment through which to deliver more and richer content to wireless devices. Such is not the case in the U.S. We believe that wireless content delivery services will be well-established in Europe before they make real headway in the United States. And what would these services consist of? While not coming out and saying exactly so, Nokia and IBM clearly have their sights set on offering the entertainment industry a means to delivery content securely to handheld wireless devices including cell phones now and future, yet to be announced wireless devices, using their networks.

In this we hear IBM and Nokia saying to the content owners: we will do the heavy lifting in building out this infrastructure that you will require before letting your copyrighted content out the door. And the entertainment industry should be taking note, and perhaps at some point even saying "thank-you." When such capabilities are available the music and movie industries have a unique opportunity to offer their content to a market of consumption-specific devices. In other words, a song delivered to a cell phone is much more analogous to delivering to a phonograph. It cannot be copied, burned, or transferred. While the entertainment industry has a broad range of challenges in dealing with the issues surrounding digital content and computers (due in large part to the incumbent technologies), this market offers a glimpse of the past where content was delivered — and stayed with individual consumers. That should be music to the industry's ears indeed.

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EMC/Accenture Introduce Information Solutions Consulting

By Charles King

EMC and Accenture have announced the formation of the Information Solutions Consulting group, a new EMC business unit that will offer enterprises platform-independent storage management services. According to EMC, the new group will provide strategic consulting services that will help customers streamline business processes, gain efficiencies, and better leverage all their heterogeneous storage resources. The new services which include storage infrastructure strategy, storage management optimization, and business continuity planning, will be developed through an exclusive, five year "business transformation outsourcing" agreement between EMC and Accenture. The Information Solutions Consulting group will be under the direction of EMC's Global Services organization, with Accenture providing consulting delivery and management expertise. Both companies will assign skilled resources to the new group, whose services will be offered separately from EMC's professional services organizations which focuses on EMC-specific solutions.

The key to understanding what the new Information Solutions Consulting group is up to is to understand what it apparently is not. The unspoken purpose of most IT vendors' global services organizations is to provide support for the company's sales efforts. This is not necessarily a bad thing (though a few pontifical vendors suggest otherwise). Global service professionals' expertise regarding their companies' products can be a valuable resource for customers, especially those who have deployed complex enterprise systems. It is also natural that when new products are needed that service professionals will recommend the solutions they know best. But that approach can shortchange customers by shoehorning specific business needs into often not especially well-fitting solutions. Additionally, the data storage business has lately grown to be a highly complicated place. Due to a plethora of vendor solutions and ongoing customer consolidation, a homogenous enterprise data storage environment is a largely fictional exception rather than the heterogeneous rule. As a result, most every storage vendor on the planet has (at least tacitly) embraced the notion of heterogeneous storage. But with industry standardization efforts moving glacially, and both vendors and their customers squeezed by tough economic times, actual support for heterogeneous storage is spotty, at best.

That is precisely why the new EMC/Accenture effort is so provocative. First, by formally separating the Information Solutions Consulting group from its regular Global Services organization, EMC is constructing a philosophical barrier between the group and more EMC-centric sales efforts. Teaming with a trusted, agnostic business consultant like Accenture should add credence to that separation, and could also offer EMC new focus and methodologies for the way it pursues consulting efforts. The exclusivity of the agreement allows both companies to pursue conventional efforts with other partners while testing and perhaps mastering these newer waters. What is most interesting about the new venture is its focus on business processes rather than storage hardware and software. By taking a higher view of business requirements, EMC and Accenture can also claim to take a higher road in the way they satisfy their customers' needs. Overall, we believe the new Information Consulting Services group could provide new opportunities to both EMC and Accenture, and should offer their clients some relief from business as usual consulting practices.

Making Money on the Internet? UMG Says "Yes!"

By Jim Balderston

Universal Music announced it would begin offering for download tracks and albums from its catalogue of older music. Much of the nearly 1,000 albums to be placed on UMG's online subsidiary EMusic.com date back to the 1950s, '60s, and '70s. UMG has termed the proposal a "consumer trial program," and claims that its EMusic service now has more than 225,000 tracks available for download. Not only will subscribers be able to download the music, they will be able to burn the MP3 files on to CDs or play them on MP3 players. EMusic charges between $10 and $15 per month in subscription fees, and claims 50,000 plus members. UMG said it had no plans to offer more current music on the site and reserved the right to cancel this trial program.

Most of the news surrounding the music industry and the Internet has been fairly depressing, in the sense that

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industry behavior seemed to be rear guard actions borne of denial and designed to impede the inevitable. While the music industry hasn't completely dropped many of its ideas on policing the Internet, it is good to see signs that major players in the entertainment industry are at least starting to experiment with new business models.

We don't expect to see UMG or any of the other big media companies pushing out new releases onto the Internet anytime soon. But we do think the idea of offering older items from their catalogues makes a great deal of sense, especially for the music industry itself. While these selections have passed their peak, providing virtually no new revenue to the record label, they are still desired for nostalgic reasons by a whole generation of geezers who associate them with fond memories and the exuberance of youth. For many, this will be an opportunity to reacquire their favorite tunes in a new contemporary format and avoid the duplication expenses they incurred with the advent of the CD. In other words, there is a market for this stuff. What we see as being most hopeful here for the music industry is the recognition that old catalogue items need not be locked up in a vault — or in a plastic CD — to be of value. Here, with a minimum of incremental cost, UMG may actually be creating new revenues through the Internet. How cool is that?

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