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# Market Roundup

August 2, 2002



## IBM Announces PwC Consulting Acquisition

*By Charles King*

IBM and PricewaterhouseCoopers (PwC) announced this week that IBM will acquire PwC Consulting, the company's global business and technology services unit, for an estimated purchase price of $3.5 billion in cash and stock. PwC Consulting has nearly 30,000 employees, and the company's estimated 2002 consulting revenues will be approximately $4.9 billion. IBM and PwC have signed a definitive agreement regarding the acquisition that has been approved by IBM's board of directors and PwC's leadership board. The transaction is subject to regulatory approvals and the approval of local PwC firms through votes of their partners, and is expected to be concluded around the end of the third quarter. PwC will no longer pursue a planned initial public offering. After the deal is completed, PwC Consulting will be combined with the Business Innovation Services unit of IBM Global Services to create a new global unit.

The IBM/PwC deal is interesting both from the strategic value the acquisition should add to IBM Global Services and as a barometric reading on the greater health of the IT market. From a strategic standpoint, it is hard to see how the deal could be considered anything but a victory. In a single move, IBM acquires a respected moneymaking entity for a fraction of its 2000 asking price, notably strengthens the business strategy consulting capabilities of its Global Services group (which should cheer IBM customers and discomfit HP), and tweaks the noses of serious rivals (Sun and EMC, for two) who once had close ties with PwC Consulting. Beyond its obvious ramifications for IBM's Global Services division, the deal should also pay dividends to the company's server, storage, and software groups for years to come. Does that mean these potential opportunities will translate naturally to a slam dunk win? Hardly. While much about the two companies is complementary, the base differences between IBM's corporate structure and PwC's partnership model could cause considerable friction, especially given IBM's decision from the get-go to integrate PwC into Global Services. Depending on how IBM handles these delicate maneuvers, PwC employees might either jump ship on their own or be enticed over the side by IBM's myriad competitors.

However, we believe the potential of that exodus will likely be mitigated by the ongoing coolness besetting the market for IT spending. The fact is that when markets go south, pricy intangibles like expertise become a tougher sell than products you can hold in your hand or install on your datacenter floor. The $3.5 billion cost of PwC Consulting is a case in point, as it is a mere fifth of the $18 billion asking price the company placed on itself in 2000, when HP was a serious suitor. While the company stated that it was planning a public offering





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PwC Consulting, the rocky ride most recent IPOs have received offered an obvious source of concern. In the end, PwC's leadership board evidently decided that $3.5 billion in the hand was worth more than uncounted dreams and lost opportunities. Given current market conditions, we expect a vast majority of PwC employees will follow suit, deciding that while life aboard the S.S. IBM may suffer some limitations, it is far more comfortable than and preferable to the dark, cold, and uncertain waters below.

## Veritas Elevates Commitment to Linux

*By Joyce Tompsett Becknell*

Veritas has outlined plans to expand its presence in the Linux market. In January Veritas announced a Linux version of its NetBackup and Foundation Suite products for storage management; now it has announced Linux clustering server software and a Linux version of ServPoint NAS, its network-attached storage appliance software to be available on IBM and Dell Intel-based servers. Additionally, Veritas announced plans for Linux-based clustering software for Oracle 9i in the second quarter of 2003, and for file system and volume management software for IBM's zSeries running Linux in the 2003 to 2004 timeframe.

Sageza believes this announcement is interesting, but not particularly from a tactical viewpoint. Pretty much everyone — including most European governments — has announced a sudden fondness for Linux. Veritas' announcement is not surprising by itself, as they have been supporting Linux all year. However, what is interesting about this announcement is that Veritas has raised Linux from a tactical play to a strategic one. While Linux is not a significant revenue earner today, it has become an icon for an open source mindset that many technology vendors believe will only grow in importance over the next few years. Veritas has aligned itself with the vendors driving the Linux adoption movement similarly to IBM which has been a significant supporter of Linux for years. With IBM's backing, Linux can go places that smaller vendors couldn't take it — such as the mainframe — and Veritas is clearly positioning itself to be one of those players. Dell is the volume driver in the market and when it made the strategic choice to go with Microsoft Windows in 1995, they and most other vendors were still shipping the majority of systems with Novell NetWare. Dell's support for Linux indicates that they believe it will become a volume play at some point, and if anyone can lead Linux to the masses, it is Dell. With the combination of IBM and Dell as partners, Veritas has positioned itself for maximum exposure to potential customers as well as establishing partnerships with the two system vendors who are best positioned to drive Linux-based solutions.

This announcement is interesting from another angle as well. Veritas is the one storage company that can credibly claim to be a software company today. Up to now, they have played the role of Switzerland, maintaining neutrality with respect to all hardware platforms. This strategy has allowed them to build solid market share and relationships with most of the major storage hardware vendors. However, as the margins for hardware continue to drop along with the list price of storage hardware devices, hardware vendors have begun to look to services and software to supplant their product revenue streams. The result has been a blizzard of announcements touting that the major players are expanding into storage software with a particular focus on management. This places Veritas in an interesting position. As much as Veritas is a partner today, it could easily become a competitor tomorrow. This means that Veritas must leverage its capabilities and grab the mantle of storage software leadership while it is available for the taking. Realistically, we believe hardware vendors will develop software for their own products before making them compatible with those of competitors, but the three de facto platforms for development today are Windows, UNIX, and Linux. Thus, Veritas cannot credibly claim to be a thought leader in the marketplace without having a strong offering for Linux. By strategically embracing Linux now, Veritas is positioning itself to get a leg up on learning the ins and outs of Linux compatibility to become masters while competitors are still sorting out their first generation solutions.

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## Light at the End of the Tunnel?

*By Jim Balderston*

Pressplay, a joint online music venture of Sony Music Entertainment and Vivendi's Universal Music Group, has announced that it is not only expanding its catalog of available songs, but is also allowing users to burn music to CDs and download files for use in MP3 players or similar devices. The new offering, called pressplay 2.0, will be available with a variety of payment options, including an option for a single annual payment of $179.40, which would allow users to download as many as 120 songs immediately and give users access to more than 100,000 tracks. The company will also sell "portable download" packs, allowing users to burn or transfer songs to devices. Pricing on these packs starts at $5.95 for a 5-pack. In a separate announcement, the Online Publisher's Association released a study that indicates that more online consumers are willing to pay for certain kinds of content, noting that consumers paid nearly twice the amount in 2001 for digital content that they paid a year earlier and that some 12.4 million Americans paid for content in the first quarter of this year, up from 7 million a year earlier. The study noted that business and financial sites were leading the pack in selling content and that sites offering other once free content such as online greeting cards, sports sites, news sites, and personal ads and dating services are now growing paid subscription services.

It has been said that a good compromise between two opposing points of view would leave neither side totally satisfied, and this is what we believe we are seeing in the world of online content. Users will have to give up the idea that the Internet is a place where everything is free and — according to the OPA report — this attitude is gaining momentum. Meanwhile, online content providers are going to have to learn that they cannot hold onto a broadcast, "consume what we feed you" model of distribution in the face of changing consumer behavior and personal media options. Both sides, providers and consumers, are going to have to move to a more equitable middle ground and the OPA study gives impetus to the idea that such a move is underway, on the consumer side at least.

The entertainment industry — as evidenced by the pressplay announcement — is beginning to see the light, and if the trends outlined in the OPA report are accurate, should begin reaping real benefits from opening up not only its library of content but the options for consumers and what they can do with that content. While pressplay reserved the right to alter and change its subscription models and pricing in the future, hopefully it will garner enough data and insight into consumer demand that it can devise new and more profitable opportunities that give consumers more of what they want while allowing the entertainment companies the ability to monetize their offerings online. We envision pricing schemata that may rely on user demand, i.e., the more popular a track is, the higher the premium a user would pay for it. For the music industry, such a plan would offer the opportunity to recapture promotional costs, while offering users the opportunity to get the latest and greatest if they were willing to pay a premium for that content. Such schemata would require much more complex IT infrastructure, something that large systems vendors can — and should — investigate as a meaningful revenue opportunity going forward. The multi-billion dollar entertainment industry has been slow to move on the Internet, it appears, to awakening to the opportunities ahead. The question now is: will the big IT vendors jump on this opportunity as well?

## IT Vendors Launch Architecture Guides for Windows-Based Datacenters

*By Charles King*

Avenade, Brocade, Dell, EMC, Emulex, Nortel, and Unisys have announced the Internet Blueprint for the Microsoft Systems Architecture and the Internet Blueprint Plus for the Microsoft Systems Architecture, the first of a series of Microsoft Systems Architecture-qualified Prescriptive Architecture Guides (PAGs) designed to support the deployment of datacenter solutions based on the Windows 2000 Server platform. According to the vendors involved, the new PAGs are designed to speed time to service, lower operational expenses, and better utilize resources of businesses migrating to these technologies. The Internet Blueprint for the Microsoft Systems Architecture features Dell PowerEdge servers and EMC CLARiiON enterprise storage systems, while the Internet Blueprint Plus for the Microsoft Systems Architecture features Unisys ES7000 servers and EMC's



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Symmetrix enterprise storage systems. In addition, Microsoft announced the Microsoft Systems Architecture program, with the goal of simplifying the deployment and management of data storage to support Microsoft-based applications. According to Microsoft and the other vendors, these Microsoft-qualified architectures are designed to deliver complete Web-enabled infrastructures to support ebusiness applications with high degrees of availability, reliability, scalability, and manageability.

After winnowing through verbiage, one can best compare this announcement to those do-it-yourself magazine advertisements offering pre-drawn plans for your dream home, though in this case maybe 'dream W2K datacenter' would be more accurate. The essential points to this announcement can be illuminated by better understanding how datacenters are typically deployed. In most cases, an interested customer will call on enterprise vendors with datacenter credentials (i.e. IBM, HP, Sun, etc.) for assistance, or contact a business integrator (EDS, PWC, Accenture, etc.) with similar expertise. The finished datacenter will be specifically designed and deployed to fit the client's existing needs, a process that is analogous to hiring a celebrated architect to design and build that home addition you've always wanted. While the result is likely to be breathtaking it is usually also wallet-breaking. How do the new Microsoft-based PAGs fit into this? In developing pre-qualified plans for complete datacenter solutions, the vendors involved in the program are offering potentially effective ways of for enterprises to side-step traditional and far more expensive big iron vendor and business integrator methodologies. By acting in concert, the PAGs vendors obviously hope to make a bigger footprint than they would individually, leading to potentially higher product sales and market penetration. Along the way, their evangelism of datacenter products from Microsoft could help Redmond become the major beneficiary of this effort.

But given the traditional insularity and technical demands of the datacenter market, does this program really have a chance? To our way of thinking, a pair of issues could tip the scales toward the new PAGs. First, given the continuing slow economy, enterprises are demanding bargains before they deploy new business solutions. The price/performance of PAG-based datacenters will likely be their biggest selling point, and to that end, we believe that the architecture featuring Dell PowerEdge servers and EMC CLARiiON systems could be especially attractive for SMBs that wish to gain datacenter advantages but lack the funds for traditional solutions. Additionally, while traditionalists will likely claim that pre-fab designs are hopelessly inadequate for delivering comprehensive datacenter solutions, we wonder whether the new PAGs might suggest that a new era for Windows-based solutions is at hand. While Microsoft's cookie cutter approach to business computing has its limitations, the company has proved time and again that it is capable of baking some pretty interesting goodies, especially given the continuing evolution of Intel-based enterprise products. These new partner-led PAGs may signal that while pre-fab plans might not be appropriate for every dream home, they could provide adequate solutions for many or even most businesses' datacenter needs.

## HP Threatens Hacker Group

*By Jim Balderston*

HP has sent a letter to a loose consortium of hackers warning that its members could face a $500,000 fine and five years in prison, according to published news reports. The letter was sent in response to a posting of a piece of computer code that would allow people to circumvent security measures in HP's Tru64 UNIX operating system. According to the report, a member of the hacker collective SnoSoft released the code in July on the security web site Bugtraq, with a link to the code that would allow a hacker to gain administrator privileges on the server. In response, HP sent a letter threatening the SnoSoft group and argued that under the Digital Millennium Copyright Act the perpetrators could face significant fines and jail time. Bugtraq removed the code, and SnoSoft representatives said that the individual who released the code did so without the approval of the SnoSoft group at large. SnoSoft has apparently been in conversations with HP concerning security issues surrounding the Tru64 OS for some time, and according to news reports, SnoSoft had informed HP of this particular vulnerability. It is unclear if HP has released a patch for this vulnerability.

While HP may have the right to be annoyed that a hacker released a security exploit to the general public, it

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may well have less of case if in fact it was aware of the vulnerability and did nothing about it. One of the primary tenets of security is the open and ongoing vetting of products in a fashion that allows for true tempering of security-related offerings. Such is the case with cryptosystems; other security offerings need similar vetting as an ongoing process. In many — if not most — cases, such vetting comes from sources other than the vendor itself, who has significant disincentives to find and announce vulnerabilities in its products. Yet while IT vendors like HP may find the independent hacker and security vetting community an annoyance, its role as an independent watchdog offers real value to the vendors themselves, who could, in the long run, face significant legal liabilities if they offer products with security vulnerabilities or fail to act on those vulnerabilities once discovered. The tension between the two sides is not likely to abate any time soon; hackers don't trust the vendors, and vice versa. Yet both need each other, and one suspects that once a major lawsuit comes down against an IT vendor that failed to properly secure its products — with substantial losses for a customer as a result — the IT vendor community will see past the occasional annoyances of the vetting process and remember its ongoing value as a legal prophylactic.

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