



Market Roundup

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Securing the Passport: Microsoft and FTC Settle Privacy Violation Allegations

IBM, HP Both Announce Low Power Initiatives

IBM Announces Linux Apps/Solutions Customer Wins

Securing the Passport: Microsoft and FTC Settle Privacy Violation Allegations

By Clay Ryder

Microsoft and the Federal Trade Commission have agreed to settle FTC charges regarding the privacy and security of personal information collected through Microsoft Passport Web services. As part of the settlement, Microsoft will implement a comprehensive information security program for Passport Single Sign-In (Passport); Passport Express Purchase (Passport Wallet); and Kids Passport. Passport maintains personal information and provides single sign-in at participating Web sites, Passport Wallet maintains credit card information, and Kids Passport allows parents to create Passport accounts for their children that can limit the collection of personal information. The FTC began its investigation following a July 2001 complaint from a coalition of consumer groups led by the Electronic Privacy Information Center (EPIC). The complaint alleged that Microsoft falsely represented that it employs reasonable and appropriate measures under the circumstances to maintain and protect the privacy and confidentiality of consumers' personal information collected through Passport and Passport Wallet services; that purchases made with Passport Wallet are generally safer or more secure than purchases made without Passport Wallet; that Passport did not collect any personally identifiable information other than that described in its privacy policy when, in fact, Passport collected and held, for a limited time, a personally identifiable sign-in history for each user; and that the Kids Passport program provided parents control over what information participating Web sites could collect from their children. The proposed consent order prohibits any misrepresentation of information practices in connection with Passport and other similar services. It also requires Microsoft to implement a comprehensive information security program that must be certified as meeting or exceeding the standards in the consent order by an independent professional every two years. The FTC is accepting public comment on the proposed order for thirty days, until September 9, 2002, after which the Commission will determine whether to make it final.

The premise of Passport is straightforward: let Microsoft guard your personal information for you to help make your Internet and shopping experience easier, safer, and more secure for you and your kids. Others counter that Passport is yet another example of monopolistic bullheaded thinking designed to ensure that no one escapes the clutches of the Redmond giant. We can probably agree that the trust relationship in commerce is paramount and making promises and then weasel-wording one's way out of them is simply not good business. For example, if a bank were to tell a client that his account information is sacrosanct and nothing less than a court order would cause its release, but then told a grocery store the citizen's account balance, home address, and to whom the last five checks were written, said citizen would cry foul. While Microsoft's intentions, either good or bad (it does not matter) can be argued until the cows come home, the

company's playing fast and loose with Passport user data has unnecessarily raised the ire of its customers and the specter of yet more government supervision, and has added more fodder to the "Microsoft can't be trusted" fire. Regardless of one's particular religious bent on this, the issue at hand is whether a business has to keep its explicit and implicit promises. A smaller operator playing a similar game would probably not cause so large an outcry, but when one is in the big leagues, big league expectations of corporate responsibility follow which Microsoft cannot hope to escape. Unfortunately, all this hemming and hawing casts a dark shadow over the positive aspects of Passport and related services and the value they can offer consumers. Given the long history of world commerce, we would expect the following to be a given, but we will say it for those who forget: If you make a promise to your customer, keep it. It is much easier than any other course of action and in the end, you and your customers will be better off for it.

IBM, HP Both Announce Low Power Initiatives

By Charles King

IBM has announced a research program to address escalating power consumption issues and help reduce cooling and power supply costs for IT infrastructures. As part of this program, the Defense Advanced Research Projects Agency (DARPA) will support IBM's Center for Low Power Computing in Austin, Texas as part of the agency's Power Aware Computing and Communications (PACC) efforts. Under the agreement with DARPA, IBM will perform research on reliable, power-aware systems, developing new technology for reliable, energy-efficient, and high-performing computing platforms. The results will be prototyped in 2003 for some military applications by BAE Systems, and will be used by IBM internally to develop power-efficient products. IBM will also develop design tools to estimate and analyze the power consumption and performance of PowerPC-based computing systems. As part of the new low power program, DARPA has pledged about \$2 million in funding to support IBM's Center for Low Power Computing.

In an unrelated announcement, Hewlett Packard declared that it is working on a suite of technologies to address the growing problems of heat generation and energy use in microprocessors and data centers. HP Labs researchers have created a system to model heat distribution throughout a planned data center, allowing facilities to be designed and built to optimize energy use. The company is also developing semiconductor cooling solutions based on the company's inkjet printer technologies, in which mechanisms will spray measured amounts of dielectric liquid coolant into specific areas of a chip. According to HP, this new technology avoids the "pooling" effect of other phase change liquid cooling methods. No pricing or availability information was included in the announcement.

While power consumption may not be imbued with the innate technical sexiness of, say, revving up RISC chip performance by 15%, we believe it speaks to both short and long term issues that critically affect the strategic efforts of IT vendors. The rolling blackouts California experienced in the winter of 2000 and the subsequent revelations of Enron's and other power brokers' involvement in that debacle have offered a particularly dirty window into the seismic nature the energy markets and how vulnerable consumers of every sort can be. At the same time, the economic and environmental effects of IT-related power consumption continue to grow. A 1994 DOE report (issued long before PCs and the Internet became business place and household mainstays) estimated that at the time, 10% of all energy consumed in North America went to support IT systems. Since we expect that IT's current share of energy consumption is far more significant, and as the U.S. hovers at the edge of what many worry may become a "double dip" recession, the IBM/DARPA deal and HP's research efforts qualify as simple good economic sense, if nothing else. But we believe a longer term issue is also at play here. As the IT industry grinds slowly if finely toward an increasing reliance on industry standard products, vendors' discreet technical advantages are likely to slowly decrease in importance to their customers, their competitors, and the market at large. In that future we envision, businesses from SMBs to global enterprises will analyze and choose IT solutions based on wide-ranging metrics that are sure to emphasize power consumption TCO projections. Overall, we believe IBM's and HP's efforts in this area reflect both companies' considerable long term strategic vision.

IBM Announces Linux Apps/Solutions Customer Wins

By Jim Balderston

IBM has announced ten new customers for the company's Linux-based hardware and software solutions, including several SMBs, which are implementing Linux solutions for core business processes. New enterprise and government customers include Air New Zealand, Deutsche Telekom, 7-Eleven, Wolfermans, Centrelink, and the Jet Propulsion Laboratory, as well as SMBs Satellite Records and Westport River Winery, and bring the total number of IBM Linux customers to more than 4,600. According to IBM, the company's SMB Linux strategy hinges on its partnerships with ISVs that focus on the SMB market such as ACCPAC, a subsidiary of Computer Associates that offers a Linux version of its Advantage Series accounting package for SMBs. IBM's SMB Linux offerings typically include the company's Intel-based xSeries servers running Red Hat or another Linux operating system, as well as supporting applications such as IBM's DB2 database software, WebSphere, Lotus Domino and Lotus Notes.

While Microsoft's huge desktop footprint offers the company's small business-focused apps and solutions unique and almost insurmountable advantages, it is easy to see why IBM and other enterprise vendors covet the SMB market. According to the U.S. Chamber of Commerce, companies of 500 employees or less make up just over half of all companies and those ranging from 10-500 employees account for almost 40% of all companies. The Small Business Administration notes in a report updated in May 2002 that SMBs (defined as under 500 employees) account for more than 99% of all employers, 51% of all U.S. employees, between two-thirds and three-fourths of all new jobs, a third of all federal prime and subcontract jobs and 96% of all exporters of goods. In other words, SMBs constitute a massive market all on their own. When one calculates the potential sales represented by small businesses that grow into large enterprises, their allure is irresistible.

Do SMBs have any real hope for non-Microsoft options when it comes to operating systems and desktop environments? Conventional wisdom would say nope, nah, nada, and nein. Linux appears to be gaining traction in server environments, but the penguin lacks the necessary apps to migrate into warmer waters. Is conventional wisdom a reasonable assumption in the case of IBM? Perhaps not, especially when considering the company's history of working with ISVs to find new sales opportunities. The real question is how IBM's increasing reliance on service-related opportunities and revenues fits into the SMB market. These smaller concerns do not for the most part view the investment into IT expertise as essential or even desirable in the long run. Instead, these companies are looking for reliable, reasonably priced options that will allow them to focus on their core businesses with no interest in becoming ground-breaking IT innovation shops. Moving forward, those vendors wishing to offer SMBs a viable and palatable option are going to have to demonstrate no muss, no fuss solutions that, like the air conditioning or telephones, hum right along with very little human intervention. The self-healing, self-maintaining, and self-managing IT infrastructure promise of IBM's eLiza initiative is an offering that has been highly touted for large enterprises, but we believe that the reliability and stability it promises would be equally, if not more, apropos and appealing to the SMBs of the world that are just trying to get their invoices out the door and their payments back in.