sageza

Market Roundup

April 18, 2003

The Old Paradigm, Resurgent

By Jim Balderston

Microsoft, Intel, and IBM have all announced earnings for the first quarter, and all three had positive results to report. Microsoft reported revenue for the quarter of $7.84 billion with net income of $2.79 billion. Both figures were up from a year ago. Intel reported revenue of $6.75 billion and income of $915 million, down slightly in both categories from a year ago. IBM announced revenues of $20.1 billion, and income of $1.4 billion, both figures up from the prior year's first quarter. Meanwhile a number of smaller companies like i2 Technologies, Ariba, and others were forced to restate earnings going back a number of years, Ariba to 1999. i2 Technologies has been delisted from the NASDAQ as a result of not having reported earnings for the past year.

While at first glance it would appear that being a market leader – or monopolist in some people's eyes – is the key to surviving the ebbs and flows of the marketplace. Or that at least being a big system vendor – like IBM – would provide shelter. Intel, IBM, and Microsoft were challenged with the advent of the Internet; for a few giddy years they were taunted by friend and foe alike for "not getting it." They were called dinosaurs and not a few sales pitches from the new, fast, agile, and innovative companies like i2, Ariba and a host of other challengers played on this fact. They were going to run circles around the big boys.

Ah, those were the days. Now, as we look back, we see that much of the innovation that these lean new companies were practicing was more focused on accounting practices than actual product improvements. That cheap shot aside, we do think it is valuable if vendors can demonstrate with reasonable authority that they are going to be around two years hence, a situation that we believe will not be the case for many of these smaller niche players, who in their short lives will burn bright and fast and make a pretty streak across the sky. While the earnings reports for the big companies at least provide some fuel for optimism in the depressed tech sector, we believe that the carnage is still far from over, as more companies will find themselves forced back to some sense of financial reality that was clouded in the hysteria that surrounded the Internet bubble. IBM and Microsoft, to be sure, will have some opportunities to improve their offerings in the coming years as many of these niche players will become bargain basement deals for acquisition. That said, we believe that for large vendors – especially systems vendors like IBM – this is a very good time to be a big bad dinosaur indeed.

Copyright © 2003 The Sageza Group, Inc.
May not be duplicated or retransmitted without written permission

The Sageza Group, Inc.
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

EMC and HDS Both Bolster Mid-Tier Storage Portfolios

By Charles King

EMC has announced the acquisition of Astrum Software, a developer of storage resource management (SRM) software for multi-platform, mid-tier environments. According to EMC, Astrum's solutions are optimized for automated file management, file level reporting, and capacity utilization; and complement EMC's automated networked storage efforts. EMC also announced that it would continue Astrum's OEM relationship with Overland Storage, a storage management software vendor. Approximately thirty Astrum employees will join EMC's Open Software Operations group. Financial terms of the acquisition were not disclosed. In an unrelated event, HDS announced the availability of the co-developed, co-branded HDS NetApp Enterprise NAS Gateway, a special-purpose server that can attach directly or through a Fibre Channel SAN fabric to external Hitachi Freedom Storage systems, allowing enterprises using HDS systems and NetApp solutions to consolidate information into common open storage pools under HDS HiCommand Management Framework. Two gateways for HDS's Lightning 9900V series, the GF940 which handles up to 9 TB of data and the GF960 which handles up to 48 TB of data, are currently shipping. A gateway for HDS Thunder 9500V systems, the GF825, which handles up to 3 TB of data, will be available on June 30. HDS will make the GF825 available for Lightning later in 2003. No pricing information was disclosed.

For the most part, the story of IT evolution unfolds in episodes of incremental improvement. Vendors develop solutions and then make adjustments as the market or circumstances demand. In enterprise data storage, the latest hot spot is the mid-tier space, a complex environment whose hodgepodge of technologies and customer strategies tend to defy straight ahead approaches. For vendors to succeed in the mid-tier, they must cast wide and tightly woven nets they make themselves or in concert with myriad partners. HDS's approach to the mid-tier has been sporadic, at best. Since the company tends to focus its own efforts on high-end DAS and SAN solutions, it has approached the mid-tier NAS space via partnerships, first and unsuccessfully with Network Storage Solutions, and more recently with NetApp. At this point, it is unclear just how, if at all, the HDS/NetApp NAS Gateway differs from NetApp's own NAS gateway. HDS claims the product is optimized for HDS Lightning and Thunder systems, but did not offer any significant details about how this was achieved. In all, the new solution seems designed primarily to provide HDS customers HDS-branded NAS options should they need them, and could also offer the company an avenue for pursuing future mid-tier opportunities.

EMC's acquisition of Astrum offers a different view of incremental evolution. Best known for its high-end Symmetrix and CLARiiON storage systems, EMC has made significant forays into the mid-tier hardware market via the lower end CLARiiON solutions the company co-markets with Dell, and its Celerra NAS systems, which provide NAS connectivity to Symmetrix and CLARiiON. Applications are equally important to EMC's mid-tier efforts, and the company has notably expanded its software offerings through numerous acquisitions, including the recent purchase of Prisa Networks, a developer of management solutions for small to medium sized SAN environments. EMC did not discuss how Astrum's solutions will be incorporated into the company's SRM portfolio, but we expect that Astrum's focus on Sybase, Microsoft SQL and Exchange environments will broaden EMC's ability to address mid-tier storage needs for customers in this space. Additionally, EMC's decision to continue Astrum's OEM relationship with Overland, which offers tape-based storage solutions, suggests that EMC is approaching the mid-tier with a healthy degree of pragmatism and a view to the future when tape-dependent mid-tier players are ready to graduate to enterprise disk-based solutions.

SCO Linux for Itanium: Salvation or Diversion?

By Clay Ryder

SCO Group announced this week the release of SCO Linux Server 4.0 for the Itanium Processor Family, its Linux offering designed for Itanium 2-based systems. SCO Linux Server 4.0 is based on the UnitedLinux 1.0 distribution, and includes additional software, support, and services that are targeted at the mission-critical Linux business environment. Key features include the Linux 2.4.19 kernel; secure remote, Web-based system, network, and security administration tools; and flexible high-availability and clustering features. In addition,

Copyright © 2003 The Sageza Group, Inc.
May not be duplicated or retransmitted without written permission

The Sageza Group, Inc.
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

the offering includes twelve months of the SCO Linux Update Service, which provides notification of updates as well as an interface for downloading and applying updates. SCO Linux Server 4.0 for the Itanium Processor Family is currently available from authorized SCO resellers. Base Edition is priced at $999 and includes a license for up to four CPUs.

Once upon a not too distant time, SCO and its partners provided, for many, the only credible and affordable solution that met the requirements of doctors, lawyers, and other professionals, as well as remote/branch office users who needed to tap into main office client/server applications. Filling this need with Open Server and UnixWare proved to be a significant market triumph that filled SCO's coffers for many years. Unfortunately, for SCO, while it demonstrated the need for a small office server solution on low cost hardware, it also raised the attention of the Redmond giant who responded aggressively and in large part with Windows NT. This signaled the beginning of a slow but steady decline for SCO. More recently, in response to pricey proprietary operating systems (Windows and RISC based UNIX), a new penguin arrived on the block. Although many initially believed Linux would devour Microsoft and Windows, the reality was quite different. While Linux did cause Redmond some consternation it more effectively ravaged the low end of the RISC UNIX marketplace and introduced a very low cost option into the IA32 UNIX marketplace.

Since the onslaught of Linux, hardware and software players have been scrambling to protect their turf and expand their opportunities in light of the destabilizing effect of Linus Torvald's religious awakening. This may seem like an opportunity that a small systems UNIX supplier like SCO would dread. However, given the affinity of Linux and UNIX, there is an opportunity for a highly differentiated IA32 vendor to recapture some past glory as it sought to provide cost effective, vertically focused solutions for the small business. Despite the success of Windows NT and its descendents, there is a sea of older small UNIX systems in place, ripe for upgrading/updating. But we wonder if SCO's focus on Itanium may be misguided in the short term. While an Itanium/Linux combination may play well in lab and university environments where Open Source has a loyal following, the small businesses that were the core of SCO's original success generally have little affinity for technology, but a great affinity for solving business needs in a cost-effective manner. For them the upgrade from IA32 to Itanium is a painful requiring at a minimum recompilation of applications and other IT drudgery. With the imminent release of the AMD Opteron CPU, and its binary compatibility with IA32 applications, we believe SCO has a brief but potentially lucrative opportunity to engage with its channel partners to upgrade many of these legacy small systems, whether they are Linux or UNIX, without the painful platform change. Additionally, AMD's favorable price point compared with Intel would allow SCO and friends to maintain a low-cost, but high-performance position in the marketplace. So we applaud SCO's long term eye on Itanium. However, given the company's recent financial woes and dwindling market relevance, we wonder if SCO will last as a viable player until the time that Itanium becomes the norm, as opposed to the exception in the small system marketplace.

The Internet: Is It All That?

By Jim Balderston

The Pew Internet and American Life project has released its latest findings concerning Americans' use of the medium and note that a significant number of non-users have either used the medium and then ceased doing so or do not use it despite the fact that other members of their family or friends use it regularly. The report notes that 20% of the non-users live with someone who uses the Internet from home. These so-called "Net Evaders" will have someone else provide them with Internet-related tasks or avoid using the medium altogether while proudly proclaiming their independence. Another 17% of non-Internet users were once online, but have since ceased, many due to technical problems with either their computers or ISPs. This number has increased since 2000, when 13% of non-users had once been online. The report also notes that 24% of non-users have never been online and have no direct or indirect contact with the Internet. The report also notes that age, income, education, and location have an impact on Internet usage. The most likely people to not use the Internet are older, retired, and living in rural areas. Forty percent of non-users today report they intend to go online some day, this group tending to be younger than those who said they had no plans to ever go online. The report notes that Internet penetration rates have hovered between 57% and 61% since

Copyright © 2003 The Sageza Group, Inc.
May not be duplicated or retransmitted without written permission

The Sageza Group, Inc.
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

October 2001, a departure from increases in prior years.

While the traits that tend to make people Internet users – or non-users – remain largely a product of age, education, and income levels, this report reveals some interesting sub-currents in the overall adoption patterns of Internet usage that have not been apparent in the past. The report reveals that not everyone has been seduced by the Internet's siren song, and in a significant number of cases some have been, only to break the spell and unplug the modem. While these figures should come as no real surprise – there is after all no such thing as 100% market penetration – we think they offer some interesting insights into market behaviors that should be heeded by vendors in the IT market.

The first thing that jumps out at us is the idea that the Internet – despite all of its hype and its truly revolutionary impacts – is not for everyone. This rubs a bit of gritty reality into the argument that the Internet and its global reach, its ever-increasing size, and its apparent indispensability for many folks is enough to declare its universal usefulness and validity. The Pew report shows that not only did everyone not get that message; but many that did rejected it. The study shows that for a significant number of people, the hype and promise of the technology were not enough to make them change their ways. We would also suspect that within many of the Internet users sampled by this survey, a significant portion could be found to use the medium because of the fact that so many people around them did; the idea of being online may in fact for these people be as much a product of social pressure as it is one of actual utility. Such observations also have validity in the enterprise IT space as well, we believe, where the siren song of many dazzlingly marketed products has given way to the grim reality of underused, somewhat dysfunctional, or wholly abandoned IT product installations. This report gives those of us that regularly use the Internet and IT a glimpse into people who are going to need more than "hey, everybody is doing it," sales pitches. It also serves as a reminder that utility, appropriateness, and actual return on investment of money and time spent on IT are more important to many potential customers than "the next big thing."

In on the Ground Floor

By Jim Balderston

IBM and Intuit Eclipse have announced a marketing and technology agreement targeted at small and medium businesses within a select number of verticals, focused on the building trades and building maintenance fields. Under the terms of the deal, which covers the U.S., Mexico, and Canada, Intuit Eclipse will optimize its Distribution Management Solutions suite for IBM WebSphere Application Server Express. IBM will promote the DMS product as part of its SMB Solution for ERP, SCM, and CRM for markets like plumbing and heating, specialty industrial, electrical, building materials, and bearings and fasteners. This new agreement expands on an existing pact between the companies, in which Intuit Eclipse is built on the IBM Universe Database, and runs on IBM eServer, pSeries and xSeries hardware. IBM said the newest arrangement with Intuit is one of the first in its new ISV Advantage Initiative.

While partnering announcements rarely get our juices flowing, this announcement reeks of a positive strategic sea change. For many SMBs, the idea of hauling IBM in to handle inventory control or supply chain issues would feel like hitting a very small nail with a very large hammer. Here, partnering with Intuit, a well-known brand in the small business space and a lesser-known one in the medium class of enterprises, both companies seem to have a real opportunity to expand markets. IBM gets its nose in on the smaller businesses and Intuit Eclipse now has street cred with larger companies that before may have shied away from it due to its small business cachet.

While we think this deal makes sense, it is not one that will flourish without ongoing care and feeding (most won't). Intuit does get a more visible place in the ERP and SCM markets, but we believe that as the technology malaise begins to unwind, the big-name vendors are going to come back with a vengeance as the tech slowdown stymied these companies just as they were on the verge of getting real, sustainable market traction. Intuit will have to deliver against the big boys. Meanwhile, IBM can help both Intuit and itself by making sure that its much vaunted autonomic computing initiative reaches well down into the SMB market. Many of these target companies have very little in the way of on-site IT staff; offering more highly reliable and self-healing

Copyright © 2003 The Sageza Group, Inc.
May not be duplicated or retransmitted without written permission

The Sageza Group, Inc.
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

computing environments has real appeal to these customers, who have a reasonable aversion to making large commitments to IT support, both internally and externally. If IBM can convince the market that the company is delivering Intuit products requiring much less muss and fuss than competitors, this could be the proverbial camel's nose under the tent in SMB market for IBM. While autonomic computing seems most often cast in a large scale enterprise computing environment, we would urge IBM to remember the little people.

Yahoo Announces New Version of Its Search Service

By Myles Suer

Yahoo has announced a new version of Yahoo! Search. The company indicated that there are several enhancements including a new user interface and the ability to find relevant information more rapidly. The update is the result of eight months of research aimed at understanding what users need in search. Additional new features include a redesigned look and feel, a new navigation interface, shortcuts to information, customized search preference, and additional advanced search features. The product is now available on the preview section of Yahoo's Web Page.

Search remains the anchor tenet for consumer portals. For this reason, it continues to be a significant place to earn ad dollars: 60%+ of Yahoo!'s revenue comes from ads. Given's Yahoo!'s split with Google, the company obviously felt the need to bring back some of the capabilities it lost in the split. As such, while we commend Yahoo's improvements in user interface, most of the "new" features do not dramatically change the current search experience. This begs the question, why didn't Yahoo create a natural language front end that allowed it to ask clarifying questions of the user's query? Additionally, why didn't Yahoo add search result clustering by keywords? These capabilities could have dramatically improved the search experience and further differentiated the search offering.

Given its endeavors in improving its search capability and its ongoing quest for new revenue, it is interesting that Yahoo! has not (at least publicly) announced its intention to make available direct interfaces to enterprise applications. In this scenario, Yahoo! might be able to position itself as a pre-search capability for Web based content, which could then be run through an enterprise class search engine such as Autonomy, Verity, or Inxight, which are tuned for searching unstructured text. Such a combination would not only narrow outside content but also present the relevant content within a sorted and captured document. So while Yahoo! announces it latest and greatest, we wonder if this is more a case of catching up to where one has been, as opposed to breaking ground with new capabilities or in new directions.

Copyright © 2003 The Sageza Group, Inc.
May not be duplicated or retransmitted without written permission

The Sageza Group, Inc.
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