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Market Roundup
July 18, 2003

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Ducks in a Nice, Neat Row

By Jim Balderston

IBM announced this week that it has acquired Aptrix, an Australian maker of content management software, for an undisclosed amount of money. The purchase comes after a lengthy relationship between Aptrix and IBM, in which Aptrix was a business partner to the larger IT vendor. The company indicated that Aptrix will become part of the Lotus Software Group and its technology will be integrated into the Lotus Workplace Content Development package. IBM also noted that Aptrix content management capabilities in the Lotus Workplace Content Development package would work not only with Lotus environments, but in WebSphere, DB2, and WebSphere Portal as well. In addition, the company announced the Aptrix product is available now with a list price of $39,999. IBM also indicated that it was working to tighten integration of content management between its various software platforms.

While at first glance this acquisition may seem somewhat insignificant, especially in the light of IBM's $2.1 billion acquisition of Rational Software earlier this year, we think there is much to look at, if not in the actual acquisition, then in the reasons behind it. For us, this announcement, and the way it was framed, tells a great deal of what is going on inside IBM. For one, we think the fact that the company emphasized the point that Aptrix technology is applicable across its entire software portfolio indicates that IBM has a holistic view of how it should proceed in acquisitions and development, especially with respect to the software group. The fact that every part of the software group benefits from this acquisition tells us that inside IBM, turf battles are not a significant issue and that there is an overarching strategic vision that the company at large has embraced. This announcement is the latest example of such a unified strategic vision that has been apparent with other initiatives within IBM, most notably the company's SMB efforts. In a series of briefings on how to attack that market, a wide variety of groups within the company presented coherent and consistent messages that indicated the presence of an overarching strategic vision that had been communicated throughout the organization. For IBM and its customers, the presence of a strategic plan — and the apparent ability to execute against that plan — continues to make Big Blue a formidable player in an environment that now appears to increasingly value execution over innovation and cutting edge technology.

EMC Reports Strong Quarter

By Jim Balderston

EMC has announced its Q2 results with reported revenues of $1.48 billion and income of $82 million. Both figures were up from a year ago, when the company reported $1.39 billion in revenue and a break-even result in income. The company attributed its quarterly results to new products, broader distribution channels, and a leaner cost structure. The company said it saw growth in storage systems sales (7% quarter to quarter) and storage software (8%), and that its Symettrix DMX series of networked storage systems accounted for nearly 80% of all Symettrix sales during the quarter. The company predicted it would return similar numbers in the third quarter.

A solid quarterly report in the midst of extremely sluggish IT investment is a notable accomplishment any way you look at it. EMC can take credit for tightening its cost controls. More importantly, the company is apparently executing on a strategy that has it moving away from selling only storage hardware to offering higher value-add (read "higher margin") storage management software and solutions. EMC announced its intentions to follow this path last year and by the evidence of this latest report, it appears to be doing just that. We also suspect that EMC has a product line and set of offerings that in many ways fits a very nice niche in a recessionary environment.

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Despite the fact that IT dollars are scarce, enterprises do need to maintain and replace aging equipment and infrastructure and/or upgrade solutions to meet new regulatory requirements. Offering products that allow enterprises to consolidate and more efficiently manage existing heterogeneous and homogonous storage environments is of real value to any enterprise today. Coupling this ability with the opportunity to extend and expand going forward is a double dip for many enterprises who see many quick fixes to today's problems becoming tomorrow's problems in very short order. All in all, we see in these quarterly results a company executing on a plan and delivering value to the marketplace as it exists today, not as it was or will be.

Blue Light Linux Special

By Jim Balderston

Wal-Mart announced this week that it is offering SuSE Linux-based PCs throught its online store. The computer hardware is made by Microtel and comes in a variety of configurations. AMD Althon and Duron processors are available, as are Intel Pentium 4 and Celeron chips. A variety of options including variable amounts of storage and memory are available. The computers range in price from $298 to $598, all without monitors. The computers come with SuSE 8.2 Linux distribution and according to press reports are the first with that distribution pre-loaded to be sold in the United States. Wal-Mart has been selling Lindows Linux-loaded machines in stores; the SuSe boxes will be available only through the Web site for the time being.

When we think of Linux, we don't really associate it with middle America, the folks that shop regularly at Wal-Mart, especially for things like computers. For that reason we have to wonder if Wal-Mart might be making a mistake in offering low-cost computers with an operating system that most folks are not familiar with. Having said that, we also can't help but note that Wal-Mart is in the business of selling everyday items to ordinary folks at high volumes and reasonable prices. In other words, Wal-Mart is not offering these boxes because the company is forward-leaning or out on the cutting edge of the open source software movement. Conversely, Wal-Mart is a retailer that largely follows trends, sees where the market is going and then — through bulk buying — moves volumes of the selected item to a large segment of the population. Call it least-common-denominator retailing if you will, but the fact that the company noted it had success with earlier Linux-based systems makes us sit up and take notice of this latest offering. Could it be that Linux is getting traction in the consumer market, albeit a small amount against the Windows juggernaut? While religious fanatics on both sides of the aisle can argue relative merits of one OS over another, we prefer to take note of the fact that the Linux-based systems have truly taken a step into the mainstream, offering casual users an alternative to Windows. Wal-Mart and Linux, who'd a' thunk it?

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