Market Roundup

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Sun Works to Catch Up

By AJ Dennis

This week, Sun executives promoted product line advancements scheduled for delivery in 2004. At the Microprocessor Forum, where Sun executives held forth on the long-term future of microprocessors, the company released details of its near-term UltraSPARC IV chip, code-named Jaguar, due to arrive in the first half of 2004. Sun expects the dual-core design to top the performance of UltraSPARC III by a factor of 1.5 to 2.0. Company sources stated a second version of the UltraSPARC IV featuring more efficient manufacturing, faster electronics, cache, and cache management will double that performance again. In a press conference, Sun announced that in their forthcoming Solaris 10 release, they will be featuring a new software technology called "Zones." With this technology, code-named Kevlar, a server is divided into independent sections, each having its own operating system, each of which can be administered separately. This software capability is in addition to Sun's current hardware portioning capabilities. The announcement also stated that Solaris' partitioning capabilities works not only on Sun servers using UltraSPARC processors, but also on servers using x86 processors such as Intel's Xeon or AMD's Opteron, and that on-going innovations to Solaris-SPARC will be synchronously added to Solaris-Opteron and Solaris-x86.

These announcements indicate that beyond the tumult within its executive ranks, real change is in motion at Sun. It is encouraging to see Sun join its competitors (AMD, Intel, IBM) in advancing "dual core" designs, responding to the customers' need for performance if they are to stay with the SPARC architecture. As important as it is to breathe some life into Sun's presence in the current "64 bit chip wars," it is vital that Sun's software capabilities come to the fore, especially to establish a credible presence in utility computing software. Partitioning is fundamental to cost reductions through server consolidation and for the flexibility of utility computing. If Solaris 10 delivers as promised, Sun's N1 vision is demonstrable at the basic level of the OS and across the network.

As encouraged as we are with Sun's announcements, it is clear that they are laggards in these realizations; last-minute converts to market and technology trends clearly mapped and committed to by their competitors. Historically, many mature technologies, companies, and product lines, having reached the apogee of their impact in the market, begin to awaken to the next phase in the bell curve. As they slide into entropy, having missed the S-curve opportunity, their massive efforts to respond to change do add significant value. Unfortunately, for many, only their current customer base inherits these advantages as new projects and customers move on and the business model becomes unsustainable. That is not to say that these companies don't try to develop break-out products but it is extremely difficult, especially for public companies, to walk away from their legacies. If they are not careful, the customer-base lifeboat that keeps these technology companies afloat during times of change can transform itself to a boat anchor that keeps them from moving forward while other vendors seize the moment to pull ahead in the race.

Steady as She Goes: IBM Earnings

By Jim Balderston

IBM has announced its Q3 CY 2003 financials, with revenues at $21.5 billion and earnings at $1.7 billion. Revenues showed a year-to-year gain of 4% at constant currency and earnings a 5% gain. The company said that revenues from the Americas were up 3% at constant currency, EMEA saw an increase of 7%, and Asia-Pacific was up 7%. The company said Global Services revenue went up 11% in current currency year to year, total hardware

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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
Milan +39 02·9544·1646

sales decreased 5%, and Systems Group revenues were flat year to year. IBM also noted that the Personal Systems Group revenues dropped by 2% year to year while software increased by 5% in constant currency. The company stated its gross profit margin was 36.3%, compared with 36.9% a year ago. IBM officials indicated they believe that the company would begin hiring next year, and indicated that as many as 10,000 new employees would be needed.

All in all, one could say that IBM's financials were basically flat. Nothing to get to excited about either way, with neither spectacularly good or bad news contained herein. Considering the state of the overall IT market, the fact that IBM is showing any growth rates at all might be more a testament to the company's ability to execute. When one also considers that IBM is rolling out its next wave of technologies, including On Demand, grid computing, autonomic computing, and a concerted effort to woo mid-tier businesses with new products, these results look pretty solid to us. In other words, the company is moving forward strategically while largely holding on to its existing markets and customers.

Of course, all of that had little effect on Wall Street, where investors were looking hopefully for a stronger sign that a new technology boom is taking flight. IBM's stock fell after the announcement, and as dreams of a return to the go-go nineties were dashed — at least temporarily. We suspect such a cycle of hope and despair may continue for some time on Wall Street, as will the apparent belief that information technology stocks will once again be high flyers on which lots of money can be made, just like the good old days. To this dream, we simply must say, "Bunk." The tech bubble, and its aftermath, was much like the experience of many collegians on spring break, who wake up one morning wondering, "Where am I?" "How did I get here?" and "Where's all my money?" IT managers, swept up in the fear and uncertainty of both the Internet and Y2K, found themselves either forced or urged to invest in a host of new technologies and products regardless of their actual utility and are now being forced to not only clean up the mess of this spending binge but also lay the IT foundation for the coming years and do so with much tighter budget restraints. As such, they are seeking ways to extend what they can of their existing IT footprint, while looking down the road at what they will need to stay competitive in the coming years. The fact that the future can be more distinctly discerned now than in the midst of the Internet dust storm does not make the task any easier; it just sets the demands more specifically. In our mind, IBM has recognized that reality for the most part, and continues to effectively keep one foot squarely in the present while taking a step forward toward the computing needs of the next five years… just like its customers. That may not make for spectacular results each quarter, but bodes, in our opinion, that IBM is keeping a very close eye on its customers' needs, something that should continue to bear steady, if not spectacular, financial results going forward.

Calling a Spade a Spade: Three-Judge Panel Overturns FCC's Cable Broadband Ruling

By Clay Ryder

Last week the 9th U.S. Circuit Court of Appeals in San Francisco issued a ruling rejecting the FCC's opinion that cable broadband should be considered solely an information service and should instead recognize that it contains a telecommunications service. This is in sharp contrast to the position held by the FCC that has favored cable and other non-telephony providers' broadband services by not requiring that they be subject to the same regulations as telecommunications providers, especially with respect to the requirement that they lease their infrastructure to outside providers if requested. At present, the descendent LECs of the AT&T breakup, Verizon, SBC, Qwest, and BellSouth are required to lease their DSL lines to third-party ISPs; however, similar limitations do not apply to advanced broadband services, typically fibre-optics that the Baby Bells are planning to deploy in the future. The FCC's chairman, Michael Powell, has ordered its General Counsel to appeal the ruling.

Ever since the Telecommunications Act of 1996 went into effect, there have been many attempts to bring true competition into the telecommunications marketplace. Yet in most every instance, there have been myriad excuses as to why a certain competitive event should not be allowed to happen (local phone competition, open access to DSL lines, freedom from local network completion charges, etc.), while industry players overall promoted the notion that all other competitive market entries should immediately be celebrated and enforced. Often at the basis of these attempted legal remedies is the argument that local phone companies are guaranteed a positive ROI in exchange for universal service whereas all other players are bereft of universal service requirements, but have no guarantee that they will ever earn back their investment let alone make a profit. As valid as these claims may seem, there is a much simpler reality at hand: most end users don't give two hoots about what the infrastructure is or how it is financed; they just want to believe that they have choice in selecting broadband internet, in large part due to the notion that competition will limit price gouging or other unfriendly (to customers) commercial behavior.

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
Milan +39 02·9544·1646

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More basic than the argument about competition is a long overdue realization that we believe simply must be made by providers and regulators alike: internet access, especially broadband, is rapidly emerging as a utility, and arguably to many with the same value proposition and necessity as telephone, electricity, gas, water, and cable television service. Traditional cable TV could easily be differentiated from telecommunications by the simple fact that it was one-way passive broadcasting of content; hardly an interactive, local, and remote communications service. Nonetheless, it was ultimately seen as a utility complete with franchise agreements, taxes, rules, and political grandstanding (often viewed on a mandated local government access channel). Telephones, with their two-way, interactive, local, and remote access, have always been a telecommunications utility, which historically was tightly regulated, and even today is still heavily regulated at the local level. From the user's perspective, it would seem that two-way interactive information access services on cable would be no different than that offered over what have traditionally been called "phone lines" and this is where we have had a hard time agreeing with the FCC's ability to see a difference between the two. While the latest ruling does not deal with the issues of underlying corporate structures or financial mechanisms, it does raise the issue that cable players in particular need to address and own up to: if you look like a telecommunications provider, you will have to act like a telecommunications provider. At present, we believe this means sharing the broadband sandbox with other kids on the block, regardless of who owns it or how it was paid for. Of course, as with all issues on the playground, we seriously doubt this is the last we will hear on this topic.

Siebel Sees the Light?

By Jim Balderston

Siebel Systems announced this week that the company has acquired software as a service company UpShot for $70 million and has also acquired the assets for application vendor Motiva. UpShot is a specialist in developing hosted applications and Motiva's offerings allow companies to track performance-based employee compensation. Siebel officials said the UpShot acquisition would become part of the company's growing efforts to offer its products as a service over the Web, including its partnership with IBM to offer CRM On Demand through IBM Global Services. That service is scheduled to go live by the end of this year. Siebel officials believe the hosted CRM market will be nearly $3 billion within the next three years.

Perhaps the second time's the charm. A few years ago, Siebel bought Sales.com, a start-up CRM company that offers sales force automation and customer relationship management tools accessed through a browser and as a standards-based outsourced service. At the time the acquisition seemed to be both intriguing and counterproductive. On the one hand, Siebel appeared to be ready to absorb some of the lessons the new CRM innovators were bringing to the market; on the other hand one had to wonder if hosted applications were going to be something Siebel — which sells its own vertically integrated proprietary CRM package — would actually pursue. As it turns out, Sales.com disappeared beneath the waves inside of Siebel headquarters and last remnants seem to be a referral to Siebel when one types www.sales.com into one's browser. Clearly, the idea of cannibalizing the company's core business of selling its products into enterprise was not in the cards. Siebel remained a high flyer after the first wave of dotcom implosions, and at the time their decision to stick with their core product line may have made sense.

So what's changed to make Siebel rethink their strategy here? Well, for one, the market has changed dramatically. Enterprises no longer have the luxury of buying seat licenses that allow for projected future growth; they are now shying away from sales pitches that only allow future needs to be accommodated by buying now. Instead, they want the opportunity to buy what they need when they need it, and to expand their IT footprints in a more cost-effective way. This new mantra applies to all sorts of IT products, and IT vendors across the spectrum are responding to their customers' wishes in this regard. So it comes as no surprise that Siebel would now begin making serious efforts in this area. Will Siebel succeed with outsourced services? Given the company's history, we are not convinced that it is willing to trade off substantial short-term revenues it has earned selling its proprietary products to offer pay-as-you-go services. Nor are we convinced that Siebel's vision of CRM will remain an attractive offering for many enterprises. Simply offering a proprietary vision as a service will not staunch shifts in the market.

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