
Market Roundup

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HP Combines Services, Enterprise Divisions

By AJ Dennis

HP announced Tuesday that it will combine two of HP's biggest divisions, HP Services and the Enterprise Systems Group, into the new Technology Solutions Group. The new group will be led by HP Services General Manager Ann Livermore who will run the Technology Solutions Group and Enterprise General Manager Peter Blackmore who will run a combined sales team called the Customer Solutions Group. Both will continue to report directly to the CEO, Carly Fiorina. She promoted the move not as a "drastic change," but as the continuation of efforts by the two teams who have been gradually combining their efforts since June to approach large corporate customers in a more coordinated fashion. There had been concerns and even problems as the enterprise group, which sells computer servers and software, was calling on customers separately from sales teams in the services division, which sells computer maintenance and support.

In the past eighteen months, HP has selectively trimmed and rearranged the company, laying off more than 24,000 employees in its commitment to cutting \$3.5 billion in costs. Amid the many restructuring moves during that time, this move makes a significant impact in HP's operations, as well as displaying common sense and a practical understanding of today's market. By integrating the divisions, and establishing operational leadership under Livermore and sales leadership under Blackmore, a more focused, more complete solutions go-to-market effort should emerge. While the most obvious impact will be in coordination of customer facing efforts, operational efficiencies and integration opportunities will also likely emerge. We can only hope that Livermore will embrace them and move quickly to create (or perhaps command) synergy between the two groups. The "solutions" focus in the Enterprise groups has been given considerable lip service in the past but marginal (or should that be margin-driven) realization. HP Services has made more solutions impact and more profit than the long-suffering hardware team, particularly in their standout successes with some rather large outsourcing deals, but they cannot claim the kind of synergistic success or notable margins that IBM's services and hardware groups enjoy.

This move should address many of HP's distractions, allowing the company to really focus on its major consumer and enterprise market orientations. HP's consumer success has kept the organization afloat for many quarters. It is now incumbent that the former powerhouse of enterprise computing steps up. With this merger, such "solutions" promise could overcome the company's post 2000 market doldrums and generate balance sheets that provide the necessary escape velocity. Another aspect of finally organizing HP enterprise efforts in this manner is not only the more holistic go-to-market opportunities but also the fact that HP Services profits will more than offset the Enterprise Group's red ink and makes these Solutions Groups profitable. Back in the black is an important precursor to spinning up, or under the right circumstances even spinning out the enterprise business. We believe that while HP would be loath to surrender the Enterprise Group, Carly does not have forever to resolve the problems that force constant cutting and reorganization. If only there were an ambitious enterprise player with deep pockets in need of a services/systems play to augment its successful niche enterprise software efforts. Hmm.

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An Opportunity?

By Jim Balderston

The U.S. House of Representatives Government Reform Subcommittee on Technology released its fourth annual report on government agency computer security and found that U.S. government agencies overall earned a “D” grade in securing their IT infrastructure and the data stored therein. This year’s report noted that the “D” grade was an improvement over last year’s “F,” but noted that a series of high profile agencies are still receiving failing marks, including the Department of Homeland Security. The report also noted that nineteen of the twenty-four agencies reviewed had not completed an inventory of their business-critical systems, the first step in assessing the security vulnerabilities.

This report will no doubt intensify the debate now raging between the U.S. government and the private sector surrounding the issue of securing the nation’s IT infrastructure, the vast majority of which lies in the possession of the private sector. As we noted in recent reports, the feds have been asking the private sector to voluntarily upgrade security on their IT footprints while threatening that if the industry is too slow in responding, the feds will step in with legislation mandating such activity. Ironically, those threats came directly from the Department of Homeland Security. CEOs will no doubt seize on this irony in their arguments against such government intervention, basically noting something to the effect of “Physician, heal thyself.” No doubt, many executives will argue that the feds should get their own house in order before dictating new requirements to the IT industry.

While on the surface such arguments may hold a teaspoon or two of water, it is our opinion that the regulation of the business sector – most notably regulations about how information is collected, stored, transmitted and disseminated – are going to become an ongoing and more frequent way of life in the coming years. Legislation like Sarbanes-Oxley and HIPPA are just the tip of the iceberg. While many enterprises bemoan these new legal edicts, they can provide an opportunity both to the enterprise and IT vendors. For the enterprise, such legislation can be the external stimulus that clarifies a muddled IT deployment priority list by moving mandates to the top of the to-do hierarchy. Such mandates can help CIOs and IT managers make a case to upper management that compliance should be done in a way that brings other benefits, like improved IT integration, better visibility of business processes, more rational management of data stores, etc. IT vendors selling products on the basis they merely will help with legal compliance issues will see no small amount of resistance, as many companies will choose to meet compliance deadlines through brute force and tactical solutions. Those vendors that can demonstrate that compliance today can be achieved through longer-term strategic deployments providing lower costs structures, and improved productivity, as well as greater ability to deal with the next wave of legislation will, in our opinion, have a higher rate of success in getting the purchase order from cash-strapped enterprises of all sizes.

The Return of Ma Bell

By Jim Balderston

AT&T has announced that it will begin offering Internet telephony service to consumers next year and expand its VoIP services for businesses as well. The company said it would begin offering VoIP telephony to consumers in the top 100 markets in the U.S, beginning next year. The company claims to be the largest carrier of IP traffic in the world, with more than a petabyte a day moving across its network. The company has been offering VoIP services to businesses since 1997, and has been running trials of the consumer service in three states for several months. AT&T’s announcement comes after the RBOC Qwest said it would begin a consumer VoIP service. Also, cable companies like Time Warner announced they will begin offering VoIP services in thirty-one cities nationwide, in conjunction with Sprint and MCI.

Stand back. An entire industry is about to be transformed, and the repercussions of such transformation will resonate for years to come. When we look at AT&T’s announcement, we translate VoIP as “last mile.” Since VoIP communications are data packets and are not considered telephone voice communications by the FCC it would appear that Qwest and all the other regional phone companies have got a problem with two particularly pointy horns to resolve. First, there is the issue of lost revenue, since AT&T will no longer have to pay a fee to the RBOCs

for delivery of a long distance call to its final destination. Second, the RBOCs now have a new, unregulated competitor for the cherished local customers. Some of the new competition will be of cable companies moving in with bundled entertainment, Internet access and phone service offerings.

But the changes don't really end there. While we suspect there will be some major legislative and courtroom fights over what constitutes voice or data transmissions, and whose markets should be opened or protected, we suspect the final result will be something along the lines of letting the market decide who wins what customers where. As a result, we suspect to see the regional bells looking around for dance and or marriage partners in the near term, as they all have to face the same reality: they sell commodity products with regulated low margins to a potentially dwindling set of customers. As a result, we suspect there will be various proposals made back and forth among the RBOCs, in the end resulting in a reconsolidation of the parts that were once Ma Bell herself, albeit without the Western Electric phone in every home. But domestic marriages may not be the end of the line for telco consolidation, in our mind. International communications companies with IP networks can also join the fray; perhaps we will see such offshore behemoths as British Telecom offering services in the U.S. in the not-so-distant future. Given the fact that present regulations will allow them to reach from across the pond with VoIP to any local number without having to pay tolls to the RBOCs, such a possibility seems anything but far-fetched. Such competitive pressure would, of course, only accelerate the reconsolidation of the phone industry once again. Ma Bell is still dead. Long Live Ma Bell!

United Nations Explores the Internet and the Digital Divide

By Joyce Tompsett Becknell

This week the World Summit on the Information Society is meeting in Geneva, with the goal of determining how to assist the developing world with the adoption and use of information and communication technology, and particularly the Internet. The attendees represent more than 170 governments, mostly from developing nations, as well as UN agencies, groups such as the Internet Corporation for Assigned Names and Numbers (ICANN) which is an American-based technical coordination body for the Internet, and various corporations ranging from Vodafone to Microsoft to Axalto (formerly Schlumberger Smart Cards and Terminals). A declaration of principles and a plan of action have been prepared in advance of the summit, and it is expected that the governments will endorse those documents. There are several key issues open to debate, including the issue of financing developing nations in meeting the goals of the summit, taking a stand on Internet openness and freedom of expression, as well as media independence and the future of who controls the Internet.

The Summit is important, because it represents yet another proof point that creating, owning, and regulating core technology is no longer the main concern for IT vendors and governments today. Instead, the possible uses and ramifications of those technologies are increasingly important. This makes more pressing associated issues including the political, economic, cultural, and social implications to countries, companies, and citizens as these technologies become accessible to ever greater numbers of people in different ways. Developed nations have been happy to use the Internet as a method to advance democratic principles, but are not happy to see intergovernmental organizations propose taking over control of the Internet (putting aside for the moment whether that truly is possible) as these organizations are not as technically savvy nor as quick as to develop the technologies they desire to manage. For their part, developing nations are looking for financial assistance in order to take advantage of the opportunities the Internet provides, yet at the same time they do not want to be forced to adopt the social, cultural, and political implications or demands that are frequently tied to those opportunities. The truth of the Internet is that its development over the past two decades has been dominated by a distinct set of cultures and sub-cultures that are completely committed to sharing information, to open disagreement and fairly democratic processes for decision making.

This philosophical discussion has important practical implications. While developing and emerging markets are currently a relatively small portion of most vendors' worldwide sales, they have also proved to have the greatest growth potential over time. Corporate IT departments and individuals in developing country

companies frequently ask vendors what they are doing to help them besides offering a price list of available products and services that may or may not yet be localized for their language, legal, and business needs. At the same time, vendor business models for emerging markets must balance risks from strategic early mover advantage to unsustainable costs of customer acquisition and maintenance. A major stumbling block, of course, is that it is only starting to dawn on customers and governments in developing nations that adopting the Internet implies or initiates a sea change in processes that affect many aspects of their lives. The impact of this conference will likely not be known before the follow-up conference that has been planned for Tunisia in 2005. Perhaps by then a sea change of a different sort that we see in the offing will be apparent in developed and underdeveloped countries alike. The major thought leaders and drivers of the future may turn out to be end users rather than technology regulators and innovators, since inevitably, user demand takes control of the market and the technologists must yield or face failure. Vendors that recognize and act first on this truth will have an unfair advantage over their competitors. Users who understand it will realize that the potential success and impact of the Internet reflects a market's willingness to embrace the changes it offers.