
Market Roundup

December 5, 2003

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Response to Stimuli

By Jim Balderston

News reports indicate that IBM will be reconfirming its sales force and partner programs to offer greater focus on industry-vertical software solutions. IBM officials confirmed that the effort was underway and would continue through next year. IBM plans to expand its ISV Advantage program, which includes efforts to offer technology that will tie these ISV's applications to IBM's middleware portfolio. The news reports follow recent IBM briefings that indicate that the company is indeed ramping up its industry specific efforts, most notably through channel partners of various sizes and stripes, with new certified ISVs and systems integrators being added to IBM partner portfolio on a monthly, if not weekly basis. IBM's latest partner initiative comes at a time when the company continues to roll out new offerings in its Express portfolio for the mid-tier market.

A few years ago, IBM announced that it was getting out of the applications business altogether. While many took note of that decision, lingering doubts have remained in various quarters as to how much IBM really intends to keep that promise. ISVs have the most interest in this question, as they see other major IT players increasingly encroaching on their turf with product offerings that essentially are designed to put them out of business. In our mind, IBM's ongoing efforts to offer ISVs and partners a wide range of middleware and the tools and technology to produce more industry-specific solutions is the strongest evidence that IBM has no interest in the applications market in the foreseeable future.

We would also argue that IBM has very good reasons for staying out of this market. Essentially, to offer applications, they would have to do one of two things: 1) offer one-size-fits-all products, forcing enterprises to customize these largely through brute force and much pain or 2) gain the requisite amount of expertise for the varied industry sectors to have a viable play in the market. In our mind, and apparently IBM's as well, neither scenario is particularly appealing. Instead, IBM has decided to let its partners — who already own both the industry-specific expertise and the relationships with the end customers — to provide the specific solutions needed, while offering a wide array of middleware and support that eases the partner burden and allows them to focus on their vertical by leveraging their expertise. Not only does this strategy make sense on its own, it gains additional clout in our minds when one looks at IBM's ongoing efforts to target mid-tier enterprises. When one considers that an overwhelming percentage of these outfits make their IT purchases in consultation with or through ISVs, VARs and other channel partners, we see IBM taking advantage of the existing market conditions instead of trying to recreate the world in a way that denies or ignores relationships and realities that would most aptly be compared to the Law of Gravity. The obvious dovetailing of IBM's ISV strategy and its mid-tier efforts tells us that IBM took stock of the market place, recognized its for what it was, and responded to that market with a viable, complementary strategy that we suspect will be indefinitely sustainable going forward.

Who'd a Thunk It?

By Jim Balderston

Microsoft has announced that it will open up its patented technology for use by academic researchers and allow licensing by private enterprises. Microsoft officials said the decision — a significant reversal of long-standing policy at the company — was a result of increasing requests from other technology companies. The company said it would grant royalty-free access to its patented technologies to academic researchers and charge licensing fees for private concerns wishing to access Microsoft's code base. Officials said that such a move would meet many of the concerns of European regulators investigating Microsoft for anti-competitive practices, but that the decision to do so was not motivated by that situation.

Could Microsoft really be bowing to pressure from the Europeans on this? It's quite possible, as Europe has shown a much greater tendency to go after the software giant and shows no signs of relenting anytime soon, Microsoft may be making a very smart tactical move to limit its potential liabilities in Europe. While such a decision no doubt caused some anguish in Redmond as it reversed one of the most fundamental tenets of Microsoft's corporate strategy, we would argue that this may all work out quite well for the company despite any reluctance to go forward with the licensing program.

Unlike many, if not nearly all IT vendors, Microsoft has seen the way to maximizing revenues by owning as near to 100% of a market as possible. The method that has worked for them is to maintain very tight control of its products and technology, effectively blocking anyone else's access to a piece of the market pie. But by licensing its technology, Microsoft will learn a lesson that most of the rest of the IT community already knows. By sharing, and by aiding and abetting potential competitors, the loss of complete control of the market is offset by the fact that the market opportunity grows significantly. In other words, Microsoft could be much better off as a result of this decision because it will control a smaller percentage of a much larger market. Companies across the IT vendor spectrum have learned that interoperability, sharing of technology, and a "play nice with others" attitude has in fact enhanced their financial returns and opportunities as the size of the target market grows. Another very real benefit to the company may come from the academic world, which now will apparently have the ability to look more closely under the hood of Microsoft's products, and by doing so may be able to help to the company in such areas as IT security, a subject that is not on the favorites list in Redmond, no doubt. What we see here is a real opportunity for Microsoft not only to polish its image, but to do well by doing good. Who'd a thunk it?

IBM Launches Storage Migration Program

By Charles King

IBM has announced a new storage migration program designed specifically to help customers replace EMC storage servers with IBM solutions. The program includes the introduction of new patent pending IBM hardware appliances designed to ease data migration processes. To kick off the program, IBM has established a team of over 100 consultants and technologists who will help enterprises evaluate their current storage infrastructures and design optimized IBM replacements, assess implementation options, and provide non-disruptive data migration services. IBM has also identified its network of IBM Business Partners as a key factor to the success of the new program, and has provided those partners access to IBM tools, services, and support to provide data migration services. IBM said that a number of partners including Champion Solutions Group have achieved success with this new methodology. In addition, IBM identified Hennepin County in Minnesota, Insurance Services Office (ISO), Royal Caribbean, and the U.S. Department of Agriculture as recent data migration customers.

Since customer poaching is a natural and ongoing exercise in the IT marketplace, is there anything unique about IBM's new effort to target EMC customers? We believe so, but a bit of historical context may be helpful. EMC's rise to prominence occurred during some of IBM's darkest days, in the early- to mid-1990s, when the company's long-term viability was an open and valid question. However, EMC did not simply profit as a result of IBM's problems. The company's focus on high-performance disk-based solutions was well ahead of the rest of the market, and IBM's traditional mainframe customers were a natural fit for EMC's Symmetrix storage systems.

Jump forward to today, where storage remains business critical for every enterprise's IT efforts and IBM is focusing an enormous amount of attention on storage as an elemental part of its end-to-end IT offerings. Since EMC Symmetrix is still well-ensconced in IBM data centers, the company provides a natural target for IBM's sharpened data storage ambitions.

Good enough, but what does this new program include that earlier efforts did not? Two things. First off, IBM's migration appliances (one designed for open systems applications and the other for mainframe environments) allow data to be moved from EMC Symmetrix (and potentially other vendors' arrays) to IBM Shark storage servers without disturbing ongoing business processes. For many or most enterprises, scheduling downtime for system maintenance and upgrades is a major headache that fundamentally affects the decision to take on tasks like data migration. A solution that significantly eases those processes offers those users an intriguing option. However, we find IBM's decision to enlist its business partners to be a more interesting wrinkle in the assault on EMC. The fact is that many IBM product users are better acquainted with the company's partners than they are with IBM itself, and likely trust those partners' opinions as much or perhaps more than IBM's. By offering their partners seats at its storage migration table, IBM has effectively and significantly expanded its band of advocates. Whether this strategy will result in notable EMC defections remains to be seen, but it qualifies as a smart business move by a company that has returned fully from the doldrums that once plagued it.

Government IT Security Mandate?

By Jim Balderston

Homeland Security Secretary Tom Ridge this week warned the IT vendor community and those that own much of the Internet-related infrastructure that they had better make more serious efforts in securing this infrastructure or face government mandates that will require them to take action. Ridge warned that terrorists could be highly disruptive to the nation's networks, and one of his staffers bluntly told the audience that there was significant pressure in Washington to move forward such legislation and that if the private sector did not act, the government would. Ridge and other government officials spoke at the National Cyber Security Summit in Santa Clara. The intended purpose of the summit was to provide an update on measures taken to date, as well as to attempt to smooth out bickering over who should dictate how such security measures are provided. However, news reports indicate that the two sides remain far apart on how such measures should be undertaken as well as what elements such legislation would contain, including provisions that would make IT vendors liable if their products lack of security led to large scale network degradation.

We believe that the IT industry will face greater and greater regulation as time passes, and believe such a scenario is historically inevitable. A number of historical analogies are apt: we would start with the automotive industry as a prime example. While the car revolutionized American life, and the automotive industry was a major driver of the U.S. economy in its day, its lofty status could not prevent it from coming under increasing scrutiny from the federal and local governments, as increasing regulation forced the industry to implement such things as catalytic converters, seat belts, impact resistant bumpers, airbags, and gasoline tanks that did not explode upon minor contact. In the 21st century, the IT community enjoys much of the status that was once conferred upon the magnates of Detroit. Heady stuff, to be sure, but we believe that the increasing acrimony between the industry and federal government is the product of industry hubris, not any sensible evaluation of the realities facing the industry in the coming years.

Industry officials complain that many of the proposed security measures would force them to share information with the government, whose own IT infrastructure is far from secure. Doing so, they argue, would make them more, not less, vulnerable. A fair criticism to be sure, but one that we again feel misses the larger context of what is at stake. While the government not only needs to improve its own infrastructure security, it also needs to make efforts to recruit and train effective IT security personnel that can act in concert with the private sector to respond to security breaches and prevent them before they happen. Clearly the government is no where near having such capacity; as such it is no doubt irksome to IT CEOs to hear threats of regulation from those that cannot keep their own house in order. That said, we would argue that the need for securing the nation's IT infrastructure would be

analogous to efforts to secure shipping lanes in the three prior centuries. Looking at the value net that is the nation's (and the world's) IT footprint, it is reasonable to assume that it has as great or greater value than the seagoing empires of many nations past. Not securing those sea lanes, or providing ships with the means to defend themselves, resulted in sizable losses of raw materials, finished goods, and coin of the realm. Whole national economies could be threatened. In this light, we see the need for both government and private sector efforts to secure these present day sea lanes as paramount. The industry needs to take such threats seriously, and the government needs to provide assistance in such security. The present standoff means that neither is being accomplished.

Sageza New Address

Please note that The Sageza Group, Inc. now has a new corporate address (shown below). Our email addresses and phone numbers remain the same.