Market Roundup

February 6, 2004

Sony Makes $1.14B "Cell" Chip Investment

By Charles King

Sony has announced that it will invest $1.14 billion (120 billion Yen) in its own and its partners' processor development and production efforts. IBM will receive $325 million to facilitate production of next generation 65-nanometer "Cell" chips and other processors at the company's 300mm facility in East Fishkill, NY. IBM expects to begin pilot production of Cell and other Sony chips during the first half of 2005. In addition, Sony will invest $500 million in its Nagasaki fabrication facility, as well as $293 million in Toshiba's chip facilities. Toshiba has announced plans to invest the same sum in its new chip plant in Oita. Together, the three plants are expected to have a capacity of 15,000 wafers per month.

First announced in March 2001, the Cell microprocessor collaboration between Sony, IBM, and Toshiba has remained a tantalizing story. In an industry where the din of companies tooting their own horns resembles a Professor Harold Hill fantasy, the Three Amigos of Cell have stayed remarkably tight-lipped about the new chip's specific capabilities, at least until recently. What has been said is that the partners intend Cell architecture to be scalable (from handheld devices to high-end servers), flexible, and modular (making it easily customizable for specific applications), and that built-in broadband connectivity across all Cell derivatives will allow networks of individual systems to be configured as massive, unified "supersystems." Sony executive deputy president Ken Kutaragi last November compared a single Cell processor's capabilities to IBM's chess-playing 32-node RS/6000-based Deep Blue supercomputer, and said a four-core Cell home server system would be able to deliver one billion floating point operations per second. Eventually, Kutaragi claimed, Cell could power 16-teraflop supercomputer "cabinets" and 1-petaflop server rooms, enough raw capacity to deliver true AI (artificial intelligence) systems.

So what makes Cell significantly different from every other bit of "next, biggest, best" IT chest thumping? First, that Cell's immediate impact is not likely to be seen first in the datacenter, but in the home, marking an interesting delineation for future IT development strategies. Over the past three decades, IT has evolved from being focused largely at laboratory and business applications, to an industry whose product and sales cycles are driven increasingly by consumers. The involvement of consumer electronics heavyweights Sony and Toshiba in Cell, along with partner IBM, takes this trend up a notch. Cell was originally intended for consumer products, with Sony stating plans early on to incorporate the chips in future generations of its signature Playstation products, and Toshiba and IBM making similar consumer-friendly pronouncements. That the partners have maintained this course, in concert with making the case for Cell's datacenter capabilities, is intriguing. In addition, while the Three Amigos have been largely mute on what operating environment Cell will leverage, the partners' past efforts offer an inkling of what lies ahead. IBM's ongoing leadership in Linux make it easy to assume that Cell will likely sport Open Source inclinations, especially in business and datacenter products. In addition, a bit over a year ago IBM, Sony, and Matsushita announced plans to develop a Linux-based embedded operating environment for consumer electronics. With this in mind, if Cell achieves most or even much of what its creators hope, the consumer electronics space will likely become uncomfortably interesting for other aspirants including Microsoft and Intel.

The Sageza Group, Inc.
32108 Alvarado Blvd #354
Union City, CA 94587
650·390·0700 fax 650·649·2302
London +44 (0) 20·7900·2819
Milan +39 02·9544·1646

HP Keeps Up with the Jones

By Jim Balderston

HP has announced that it has acquired two technology companies in an effort to bolster its Adaptive Enterprise initiative in which it will offer enterprises easier means by which to manage their IT footprints, from the datacenter to the desktop. HP acquired Novadigm and Consera Software. Novadigm provides technology for managing various elements of the IT network, using change management software to manage and update various components of the IT landscape, from servers to desktops. Novadigm technology will be integrated into HP's OpenView portfolio of systems management offerings. Consera's products allow enterprises to create models of the IT footprint, mapping these models to specific IT components. HP stated that Consera's capabilities would allow Novadigm products to automate software upgrades, changes, or patches based on the created models. Consera's technology will also be folded into the OpenView product suite. HP indicated that customers would be able to purchase both companies' products as modules of OpenView or separately. HP disclosed that it would pay approximately $120 million for the publicly traded Novadigm, and did not disclose how much it will pay for the privately held Consera.

We are not surprised to see HP look for strategic acquisitions; rather, we suspect this will be a pattern for the company for some time into the future. As it is well known, the company's strategy after the Compaq merger was to cut bodies from the budget to make quarterly numbers that Wall Street approved of. The company was able to shrink its way to profitability, but in doing so was forced to eliminate many inhouse initiatives that would have potentially provided build instead of buy options. As it is, we suspect that HP has effectively chosen a fork in the road as far as developing its technology inhouse; for the most part the company appears to be on a path to acquire what it needs in the future.

Of course, this path leads one to the mercies of the marketplace. By not developing its own middleware, management tools, and the like, the company is forced to partner with or acquire those vendors that do provide such solutions. As HP learned in the past year, such partnerships can unravel if a rival scoops up a partner from under one's enterprise nose, such as the case with Sun acquiring TerraSpring and IBM scarfing Think Dynamics. In this sense, HP's active foray into the market, acquiring these technology partners before a competitor does, makes sense and indicates that HP realizes that it must not hesitate lest it lose access to valuable technology. That said, we do not see these acquisitions as a big win for HP; instead they are nothing more than table stakes to the IT systems poker game, where IBM, Sun, and others still seem ready to ante up and play cards well into the night. In our minds, the company must continue to be aggressive in acquiring technology, as the company still has a considerable task of convincing the market that it has a viable long-term strategy for large enterprise customers. Such convincing must come at the same time that HP has announced a much more aggressive and high-profile campaign to woo consumers with all sorts of gadgets and gewgaws, including television sets. These acquisitions are a start. What's next?

IBM Announces New Vertical Software Solutions

By Charles King

IBM has announced new middleware software solutions aimed at enterprise customers in the financial, banking, and insurance industries. The new solutions will be complemented by IBM's services and support organizations, along with offerings from IBM's ISV partners. The new IBM financial markets offerings include: Risk and Compliance Foundation, Front Office Insight, Trade and Order Management, Financial Information Interchange, and Post-Execution Integration. The new banking solutions are: Wholesale Payments Processing, Branch Transformation, Core Systems Transformation, Channel Empowerment, and Risk & Compliance. The five new insurance industry solutions include: Integrated Claims Management, Integrated Underwriting, Policy Management, Channel Distribution Integration, and Insurance Customer Insight. The new offerings leverage core capabilities of IBM middleware and software solutions including WebSphere Business Integration, the WebSphere Business Integration ACORD adapter, WebSphere Portal, the Financial Services Portal Workbench Framework, and Tivoli products. No pricing information was included in the announcement.

The Sageza Group, Inc.
32108 Alvarado Blvd #354
Union City, CA 94587
650·390·0700 fax 650·649·2302
London +44 (0) 20·7900·2819
Milan +39 02·9544·1646

When IBM announced a few years ago that it was leaving application development largely to its ISV partners, the move inspired derision in the company's competitors and a measure of doubt among ISVs. But IBM has stuck by its decision to good effect, pursuing a middle-ground strategy of offering its middleware solutions as software solution development environments. By doing so, IBM has avoided the inherent conflicts of vendors such as Microsoft, which competes directly with many of the ISVs who use Windows, and delivered better value to ISVs than HP, which has abandoned middleware development and innovation to third parties. However, explaining the benefits of middleware, which remains a fairly esoteric subject on even the best days, requires some refinement to stay relevant, both among ISVs and end customers.

IBM's focus on middleware solutions for the financial, banking, and insurance industries offers just that sort of refinement, and reflects similar vertically-focused development efforts the company has pursued in grid computing and other areas. By finely slicing the requirements of these industries and offering specific middleware frameworks to fill those needs, IBM is demonstrating its own understanding and expertise, and persuasively arguing its role as a solutions vendor of choice among industry customers. Just as importantly, in dicing customer's requirements into practical solution areas, IBM is also creating opportunities for ISV partners to create their own commercial applications. In other words, by investigating and deciphering the needs of vertical industry customers, IBM is cultivating opportunities to portray its own products, leveraged with those of its ISV partners, as best-of-breed solutions. In a literal sense, IBM's creation of new middleware offerings for the financial, banking, and insurance industries is an elemental lesson in Market Making 101.

Proposed Federal Budget Cuts May Harm IT Vendors

By Jim Balderston

The recent $2.4 trillion Presidential Budget for the fiscal year 2005 was forwarded this week to Congress and included a number of cuts to various U.S. agency programs. One such cut was a $119 million trimming of the Small Business Administration budget, reducing its funding from the $797.9 million Congress authorized last year to a presidential request of $678.4 million for fiscal year 2005. Approximately $79 million of the cuts were from a subsidy for SBA loan applications, along with $40 million in cuts to salaries and other programs. Advocates for small business said the cuts come at a time when supply of SBA loan assurances cannot meet demand under the present funding. Ffurther cuts, they say, will limit the access to loans for small businesses.

Small business has been the undisputed king of new job generation in this country for several decades. Now, when increasing numbers of large employers are cutting staff or outsourcing jobs offshore, it has been the small business community that has been picking up much of the slack in sagging employment numbers. SBA's loan programs, along with the agency's ability to help small business secure loans from the private sector, have been critical sources of funding for many of these businesses in the past decade. Furthermore, SBA loan programs have the ability, through local agencies, to reach directly to small business owners in communities across the country.

So why should the IT vendor community care? Considering the fact that the SMB market is getting active attention from IT vendors of all stripes, we believe that effectively reducing the means by which small businesses start or grow will likely have an impact on IT markets in the coming years. Not only do even the smallest businesses now rely on at least some sort of nominal IT investment, many have found more formal and substantial IT investments de rigueur for doing business with larger enterprises for whom they provide goods and services. The "small" segment of the SMB market offers notable opportunities for IT vendors of all sizes, as well as their channel partners. That said, we also see a larger issue at hand, one that could have an even more dramatic impact on IT sales to the mid-tier market. Many small businesses start small, and stay that way, but a small percentage actually take root and grow, reaching the much more desirable (from the IT vendor standpoint) status of mid-tier companies, of which there are tens of thousands across the country. Perhaps we should point out the obvious to the President and those who support his SBA cuts: those mid-tier companies did not come into existence fully formed; they were all at some point small businesses. By further reducing access to SBA loans, not only does the government harm the communities in which small businesses would provide employment and stability, this loss of access also prevents many small businesses from growing up into mid-tier operations that provide rich market

The Sageza Group, Inc.
32108 Alvarado Blvd #354
Union City, CA 94587
650·390·0700 fax 650·649·2302
London +44 (0) 20·7900·2819
Milan +39 02·9544·1646

opportunities for IT vendors. Cuts in the SBA's loan programs not only effect the near-term activities of the companies involved, they have long-term, untoward impacts going forward on a wide variety of businesses well beyond the influence of the SBA.

The Sageza Group, Inc.
32108 Alvarado Blvd #354
Union City, CA 94587
650·390·0700 fax 650·649·2302
London +44 (0) 20·7900·2819
Milan +39 02·9544·1646