Market Roundup

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Bigger is not Always Better

IBM Pushes the Envelope in the Low-End UNIX Market

Insecurity in Redmond

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Bigger is not Always Better

By Jim Balderston

Hewlett-Packard announced Wednesday that CEO Carly Fiorina has resigned, effective immediately. According to published reports, Fiorina was asked to step down after a series of disagreements with the HP board of directors over the way the company was being managed, and reportedly for refusing to delegate operational authority to subordinates after the board expressed concerns that the decision-making process at HP had become too centralized in Fiorina's office. Fiorina leaves HP after a five-and-a-half-year stint and will receive a $21 million severance package. During those years, HP's stock price has dropped nearly 50%, despite the company's much ballyhooed $19 billion acquisition of Compaq Computer, which was the single largest achievement of Fiorina's tenure.

Fiorina's departure was greeted with some enthusiasm by Wall Street, which drove up HP's stock price slightly, and with even greater enthusiasm by many HP employees who reportedly broke out champagne to celebrate the news. Morale at the company had been low, with multiple rounds of layoffs after the Compaq acquisition reversing a long-time tradition at HP to avoid cutting employees. Morale sagged as a result. While Fiorina eventually was able to demonstrate that the merger was a net positive for the company, she was only able to do so by eliminating tens of thousands of positions. In short, she cut to profitability.

The motivation for the merger was three-fold: to grow large enough to take on IBM, to take out Sun, and to find the economies of scale to compete with Dell. Dell has taken a big bite out of competitors' revenues in the PC business, to the point where IBM is trying to get out of that market altogether. Sun continues to hang around, and still can offer high-end servers that compete quite nicely with HP's Itanium-based offerings. IBM, meanwhile, continues to build out its strategy of offering middleware and hardware as well as services across the board, and it is quickly outdistancing HP in the enterprise market. HP's fall from grace in that market may be attributable to the simple fact that Fiorina spent an inordinate amount of time fighting for the merger instead of guiding the company forward. After the merger was completed, she then spent time trying to make it look good to Wall Street, and ended up making the numbers work by dropping 20,000 people from HP's payroll. With the clarity that hindsight gives us, it's pretty clear the net result of the merger was a larger company with little strategic vision for competing in a variety of markets with well established competitors. It became more unwieldy, slower to react and move, and internally hamstrung by the centralized control Fiorina maintained up until her final day. Bigger can be better, but only if its justification is rooted in strategically complementary parts, and not just in increasing one's size. Fiorina mistook one for the other, and as a result is the latest HP employee to be laid off.

IBM Pushes the Envelope in the Low-End UNIX Market

By Rob Kidd

IBM has just introduced new low-end entry point systems p5 510 and 510 Express to its UNIX server product line. Both are 2U, two-way dense rack mount servers, and use either the 1.5GHz or 1.65GHz POWER5 processor. Both systems support AIX UNIX Versions 5.2 and 5.3, Red Hat Enterprise Linux AS3, SUSE Linux Enterprise Server 9, and Dynamic Logical Partitioning (LPAR), with IBM Virtualization an added option. The 510 Express comes as an SMB prepackaged, out-of-the-box offering with IBM middleware such as the DB2 database, Websphere application server, IBM TotalStorage, and third-party applications. IBM is providing further price incentive over system list price for IBM Value Paks preconfigured systems. Systems can be configured with up to 32GB of memory and four drive bays, for a total of approximately one-half terabyte of local storage, and offer a robust

collection of port configurations. The products will be sold through IBM's indirect channels and partners. The 510s will be available mid-February. The list price of a single processor 1.5GHz POWER5 system, with 512MB memory, a 73GB drive, and three-year warranty is $3,967.

In the past several years IBM has gained market share in the high-end and midrange UNIX market. The company has been less visible at the low end of the UNIX market, which is the entry and upgrade point for smaller enterprises. The 510 offering helps the company capitalize on the entry-level opportunity, estimated at more than a third of the UNIX market. The p5 510 is targeted at enterprise remote edge-of-the-network environments, such as branch offices, and the 510 Express is targeted at the growing SMB opportunity. The 510 products' installability, configurability, and manageability make them attractive for these environments and others demanding minimal IT support. Further, the 510 offering with partitioning and virtualization will run both AIX and Linux: valuable in mixed-legacy UNIX and Linux environments or for customers moving from UNIX to Linux. To help stimulate this demand, IBM is streamlining and simplifying the purchasing process in conjunction with the company's application providers, distributors, and business partners, with enhanced support, service, and the three-year warranty. The combination of IBM customer-friendly programs, the 510 RAS features, virtualization option, performance, price/performance, low entry price point, packaging, and Value Paks price incentives make for an attractive value proposition that could be a win for both IBM and customers.

The 510 offering is competitive with equivalent products from both HP and Sun. For example, based on IBM benchmarks publicized at the product announcement, the 510 delivered anywhere between 1.1x and 2x the performance of the HP rx2600 and the Sun Fire V240. IBM also made price comparisons showing that the 510 offerings were between 20% and 40% less expensive than the equivalent offerings from Sun and HP. The 510 products present an option worthy of review by those customers contemplating the purchase of low-end UNIX systems.

Insecurity in Redmond

By Jim Balderston

Microsoft announced this week it has acquired Sybari Software, a maker of email security products, for an undisclosed price. Sybari provides software for servers to protect them and users from malware and spam attacks and says it has more than 10,000 enterprise customers with more than 10 million end users. Microsoft officials said the acquisition was the latest move in the company's commitment to providing improved security for customers using its products. Microsoft acquired a Romanian antivirus vendor in 2003 and has announced it intends to offer its own security applications.

Microsoft has been on the receiving end of much criticism concerning the relative security of its products. Some of that criticism has been warranted, some not, as the company is the largest single target for various forms of malware and other security issues. That comes with the territory of owning over 90% of all desktops in the marketplace and being one of the largest companies in the world. These two factors in combination make for a target that is in many cases immensely disliked. In response to the criticisms, Microsoft has embarked on a public campaign to improve the security of its offerings.

Microsoft's commitment to providing its own security products should be cause for concern amongst security product vendors like Symantec and McAfee. Microsoft has very deep pockets and the need to leverage more revenues out of its existing market share. Scooping up money that has been going to other vendors is one way to do that. That noted, it remains to be seen whether Microsoft can offer security products that are up to current industry standards and that subsequently pry away customers from the well established brands of Symantec and McAfee. If Microsoft's security offerings are perceived to be not quite up to snuff, this could provide more fuel to the argument that security is a specialty field best left to the experts. Such sentiments would be hard for Microsoft to refute, especially given the fact the company releases numerous security patches for its flagship products each month. While the evidence of Microsoft's commitment to providing security products continues to mount, evidence that they will be successful is still in scant supply. Given the hurdles the company faces in its attempts to provide homegrown security products, such evidence is going to have to be both solid and overwhelmingly favorable. We're waiting.