Market Roundup

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Microsoft Virtually Reaches the Market
EMC Walks the Walk
IBM MQ? High IQ
Adapting to New Realities, Building Momentum: Adobe Buys Macromedia
EMC Extends High-end NAS Technology

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Microsoft Virtually Reaches the Market

By Joyce Tompsett Becknell

At the Microsoft Management Summit this week, Steve Ballmer discussed the company's plans for server virtualization in the context of the Dynamic Systems Initiative (DSI) and Microsoft Operations Manager (MOM). Microsoft's term for the ongoing virtualization and automation of IT infrastructure is Dynamic IT, which it maintains should deliver business value through automation, flexible resource utilization, interoperability, and knowledge-based processes. Microsoft has also announced plans to invest both short- and long-term in virtualization and virtualization management. In the short term, Microsoft has released Virtual Server 2005 SP1 beta, delivering 64-bit compatibility and improved performance and availability. The company is also working with industry partners to expand third-party guest operating system support on SP1, so that Windows Server 2003 + Virtual Server 2005 will be a platform for heterogeneous server consolidation. A MOM management pack for Virtual Server 2005 was released that provides a central console for managing the health and performance of physical and virtual machines seamlessly. Microsoft will also license the Virtual Hard Disk (VHD) royalty-free so that partners can develop VHD-based solutions and enhance capabilities and extensibility of the VHD file format. For the longer term, Microsoft has discussed building virtualization capabilities for Windows based on Longhorn, the next version of the OS. This will support enhanced hardware technologies such as Intel Virtualization Technology and AMD's Pacifica specification. Finally, Microsoft will increase investments in the System Center family of products.

From a technology viewpoint, Microsoft is finally making progress on the integration and management issues which have been ongoing for Microsoft users. Because systems were inexpensive, IT managers purchased them in bulk and then discovered that they had an unwieldy lot to administer. Many of these servers were isolated islands of compute power. Once the number of production servers hit critical mass, they began to look like good candidates for virtualization, which encompasses everything from server consolidation to enhanced automated management features. Microsoft's MOM management packs have done a good job of automating management tasks for many Microsoft products and are beginning to be shipped standard with the latest versions of the various products. Bringing the technology to Virtual Server was just a matter of time, and should be much appreciated by harried server administrators. We expect Microsoft's ongoing work with management will only continue to improve the situation and bring Windows capabilities closer to those of high-end UNIX systems. This is important as Windows capabilities have lagged seriously behind those of the systems with which they often compete.

As for continued integration and virtualization, Longhorn remains the promised land of true next-generation product from Microsoft. As they begin to reveal bits and pieces of what the finished product will entail we are heartened and can only assume that Microsoft has finally made the shift on focus from the masses of individual systems of the past to the recognition that the IT environment is a single ecosystem (pardon the word) where heterogeneous resources must interact and the ability to share data across users and organizations requires more than simple email and file sharing. Microsoft's greatest challenge now lies not in fulfilling its product roadmaps, which will happen in time, but in educating customers on how to take advantage of the evolving products to solve

business problems. The ongoing challenge in organizations is that most business users really understand only the technology they use personally, and most IT staff's knowledge of business is similarly limited. The value of vendors' products continues to drift from superior technical feature differentiation to recognizable business value. That value however can only be realized if it is implemented in proper context. If IT and business managers within an organization cannot articulate their IT needs within a business context, then the partner channel, who is responsible for delivering the bulk of Microsoft's product to customers, will be largely held responsible for being able to match customer needs to products. In this sense, while Microsoft has laid the foundations of the right direction for its products, it is its channel strategy and its partners' ability to leverage that technology that will determine how successful the company is in growing its business.

EMC Walks the Walk

By *Jim Balderston*

EMC announced its first quarter financial results this week, reporting revenues of $2.24 billion, up from $1.87 billion a year ago, and net income of $270 million, a 91% jump over the $140 million of a year ago. Systems revenue was up 15% over last year to $1.03 billion and EMC's software licensing and maintenance revenues grew 26% to $832 million, which now accounts for 37% of EMC's total revenues. The company reported that its Clarion networked storage revenue grew by 47% over the past year and that its VMware acquisition grew revenues by more than 100% to $80 million.

Not all that long ago EMC announced that it was pinning future revenue growth on new software and value-added technologies that would allow it to avoid falling into a low-margin business of simply selling storage hardware. The company properly recognized that storage hardware was becoming a commodity and subsequently began branching out with more software offerings. At the time, we said such a strategy made a great deal of sense, and indicated that the company had a long-term strategic vision that could help it escape falling into a low-margin commodity product company. The only question that we posed at the time was this: could EMC do it?

This latest quarterly report indicates that EMC is executing on its strategic vision and doing it rather nicely, at that. With software revenues growing to ever larger percentages of the company's total revenue, we see EMC positioning itself well for the future. By applying its storage expertise to value-added products such as management software and the like, it brings greater value to its entire storage portfolio building a level of symbiosis that drives all parts of the company. Evidence of EMC's care in doing acquisitions can be seen in the explosive growth of VMware offerings due , not only to the increasing acceptance of virtualization but also to EMC's ability to offer VMware products in its systems and software sales presentations. We suspect that VMware revenues will continue to grow, as virtualization becomes a de facto minimum daily requirement of IT deployments due to its ability to drive down both costs and complexity. EMC is now building an increasingly compelling case that its long-term strategy is not only working, but working quite well. In a world full of talk, it is nice to see a company do the walk, as well.

IBM MQ? High IQ

By *Jim Balderston*

IBM has announced its latest version of WebSphere MQ Series for large enterprises and its WebSphere Business Integration Server Express software for the SMB market. The company positioned both products as solutions for large and small enterprises respectively to integrate IT environments with the effect of lowering costs and streamlining business processes. Most notably, the two products are designed to allow home-grown business applications — complete with all of their technological quirks and idiosyncrasies — to connect with other business systems. Version 6.0 of WebSphere MQ provides connectivity to more than 150 new application environments. WebSphere Business Integration Express offers wizard-driven business rules and increased simplicity of remote deployment, configuration, and administration.

Rolling out the latest version of MQ Series may not be the sexiest announcement in the world of IT, but it represents IBM's ongoing efforts to provide increasingly sophisticated middleware to the IT market at large. MQ

Series is akin to rebar in concrete columns supporting freeway overpasses: largely ignored or unnoticed, but crucial nonetheless. This is core technology that few CIOs may understand, but that IT managers across the globe recognize as critical must-haves.

We have often criticized IBM for releasing new enterprise-class products while ignoring similar needs for the SMB market. Our past criticism is now obsolete, at least for the time being, since the company announced Business Integration Server for the SMB market along with the enterprise MQ Series product update. We take note of the fact that IBM also emphasized the SMB product at the top of its press release, and took great pains to acknowledge the revenue opportunities in the SMB market. We are not convinced at this point that IBM decided to heed our calls for simultaneous enterprise and SMB product releases; such a claim would verge on the preposterous. However, since they have seen the light independent of our ongoing clamoring, we can only say: well done. Offering SMBs — and the channel — products that can then be upgraded to enterprise-class offerings at some point in the future makes sense today, tomorrow, and well into the future.

Adapting to New Realities, Building Momentum: Adobe Buys Macromedia

By *Rob Kidd*

This week Adobe announced that it would acquire Macromedia in an all-stock transaction for approximately $3.4 billion. Macromedia shareholders would own 18% of the combined company and would receive an approximate $9 premium over their share value at announcement. The Adobe board of directors has also authorized $1 billion in stock repurchases over the twelve months following the close of the deal. It is estimated that the combined company will have approximately $2 billion in revenues and 5,400 employees. Bruce Chizen, Adobe CEO, will assume the CEO role in the combined company and Stephen Elop, Macromedia CEO, will join Adobe as president of worldwide field operations. The two companies are working on a comprehensive Adobe/Macromedia integration plan to be implemented at the close of the deal. It is expected that much of Macromedia senior management and most employees will join Adobe and the combined company will adopt the Adobe brand. The acquisition is expected to close in fall 2005, subject to shareholder and regulatory approval.

The combination of Adobe and Macromedia would provide customers a potentially powerful set of solutions for creating, managing, and delivering content and experiences across multiple operating systems, devices, and media. With an approximately $15 billion dollar market capitalization, Adobe would become one of the larger software companies in the world, but well behind behemoths such as Microsoft, Oracle, SAP, and Computer Associates. The general and trade press have made a major point of this, with the claim that the combined company could threaten Microsoft. The threat in this context is relative. The Adobe/Macromedia combination, when integrated and fully operational, could compete with Microsoft in the area of integrated rich media and digital content creation, management, and delivery to the emerging mobile and non-PC platform markets, but will have a formidable, intensely competitive, deep-pockets combatant to face. On the other hand smaller players in Adobe's traditional space, such as Quark, could face marginalization, if not extinction. The legacy Adobe user community of developers, creative professionals, and end-users may view this development with concern. These individuals maybe relegated to having only two choices: Adobe or Microsoft.

The combined Adobe would be aggressively positioned to capitalize not only on the increasingly available markets for non-PC, mobile platforms but also as well the growing market for such technology in enterprises. Forward-thinking enterprises are calling for integrated software solutions that enable them to create, manage, and deliver a wide range of compelling content and applications, from documents and images to audio and video. This new potential customer base may well find the combined Adobe future offerings attractive. For example, we seriously anticipate the combined Adobe to create a new era of "live document technology": interactive documents that facilitate context-sensitive behavior and enable more effective and efficient interactions. Imagine government agencies using such technology to streamline, automate, and cut the cost of processing individual taxpayer filings, license registrations, or even library book renewals, using the combined Adobe and Macromedia technology. We believe that such technology has the potential to simplify the lives of individual users and provide notable benefit to corporations, governments, and other organizations. This is the wave of the future and Adobe may be on the verge of catching it.

EMC Extends High-end NAS Technology

By Rob Kidd

EMC has introduced its new high-end EMC Celerra NSX NAS gateway, focused on helping IT lower costs and achieve ILM benefits by consolidating DAS with iSCSI, automating the creation of tiered storage for NAS, and by providing data transparency between storage tiers. The new Celerra NSX NAS gateway delivers up to 300,000 network file system operations per second and provides up to 112TB of usable capacity. With up to eight X-Blades, this technology provides n+1 clustering for high availability. Celerra Automated Volume Management (AVM) software provides a GUI to optimize system management, based on predefined workload characteristic, and features multiple independent file systems as a virtual file system for administration, access, manageability, and control. EMC also announced Centera FileArchiver (CFA) software that integrates with EMC Celerra FileMover API, to deliver policy-based data management and movement and help automate information achieving. The list price of a four-X-Blade Celerra NSX is approximately $278,000 and includes dual management stations, dual uninterrupted power systems, the CIFS protocol, EMC Celerra SnapSure software for local replication, and EMC Celerra Manager for web-based management. Celerra NSX systems are anticipated to be available in May.

NAS is about a fifth of the networked storage market and is currently experiencing approximately a 15% annual growth rate: an attractive market opportunity. On the other hand storage hardware, and particularly NAS, is increasingly becoming a commodity. With this announcement EMC is advancing in position against key NAS hardware competitors: Network Appliances (NetApps) and IBM. Network Appliances, with approximately 40% of the NAS market, is the player to beat, and with the recent NetApps/IBM partnership, specifically aimed at competing with EMC, this task is now more difficult. The combination of NetApps' NAS products and IBM's powerhouse sales and distribution capabilities is a potent one and may prove effective at leveraging NAS sales into large enterprises. However, based on EMC bench marks, EMC NSX provides approximately 70% better price/performance with four times the performance, when compared with NetApps' NTAP GF980C and IBM's IBM 500G. This competitive performance, in conjunction with EMC's new scalable management software and virtual file system technology might tip the balance in favor of EMC in large enterprise accounts, particularly those where EMC already has a presence.

Enterprise IT will likely find the features of the EMC scalable management software attractive. For example, "at a glance" alert status monitoring across multiple systems could help cut administration costs and potential down time. Predictive file systems based on only a few weeks of historical data could assist in managing capacity across file systems. A similar commentary can be made for the virtual file system; for instance, automated volume management could help reduce storage administration costs and reduce complexity. In summary, we believe that the NSX NAS gateway, scalable management software, and file system virtualization technologies are well positioned to help IT avoid or reduce costs, provide a vehicle for enterprise data-center consolidation, and help companies further leverage existing IP network resources.