Market Roundup

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HP Splits PC/Printer Unit

By Jim Balderston

HP announced this week that it is splitting up its PC and printer businesses and has handed the reins of its PC and personal technology business to former palmOne CEO Todd Bradley. The printer and PC businesses had been combined under prior management. Bradley will be the Executive Vice President in charge of the Personal Systems Group, which covers PCs, workstations, monitors, and handheld devices. V.J. Joshi will run the printing and imaging business for HP.

Mark Hurd, HP's new CEO, is clearly not wasting time in bringing his vision to HP. The combining of the PC and printing businesses at HP probably did more than the printing side for the PC side of the ledger, with HP printing still a solid moneymaker and the PC business doing less well. Combining the two may have had some management advantages, and probably some ability to make the books look a little brighter for HP. With HP's focus on consumer gadgetry under former CEO Carly Fiorina, clearly Bradley will have a sizable inventory and multiple markets to tinker with in attempts to bring more stability and profitability to HP Personal Systems Group.

We suspect that Bradley is going to get a shot at bringing better results to the PSG group and with his experience at palmOne he may indeed be able to sell more gadgetry to consumers and bolster revenues. But the reviving PC business may be a much harder nut to crack. With Dell and smaller computer makers driving prices downward at an ongoing clip, it makes us wonder how a company with the overhead of HP will be able to compete effectively in the razor-thin margin market. PCs are pure commodity now. Dell is adept at selling, building, and shipping systems at lower prices than HP can provide, and is focused largely on that task. Competing with Dell in this market may simply not be feasible. Which brings us to another point: Perhaps this move is one to spruce up the Personal Systems Group before putting it on the market. After all, IBM just unloaded its PC business to Lenovo (albeit while maintaining a sizeable holding and management influence), and we believe that IBM has had a much more comprehensive overall strategy than HP in the past five years. Perhaps Hurd looked around, took bearings on what competitors were doing, and is in the process of duplicating some of IBM's strategic thinking specifically concerning the PC market. Mimicking IBM in this case may be a very good idea, and at least shows more strategic thinking than the past regime. And, at least, that's a start.

LAMP Shines Brighter

By Jim Balderston

ActiveGrid, a start-up focused on developing the Linux Apache, MySQL and PHP/Perl Python (LAMP) stack of open source software announced this week that it has signed partnership agreements with MySQL, Apache management provider Covalent, Novell, and PHP toolmaker Zend Technologies. ActiveGrid intends to release a new application server software that will allow clustering of servers running LAMP environments. The company plans to give away a low-end version and sell a more feature-rich version for large enterprise computing environments. The new server technology is expected to be released in July.

LAMP supporters argue that it offers much less expensive and less complex development opportunities than J2EE or .NET offerings. Given the open source nature of LAMP, the less expensive claim seems to have merit, the less

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complex claim will be borne out with time and actual development of operating environments. Given the track record of open source development to date, however, we suspect that LAMP will continue to make inroads into corporate environments as a more lean way to meet IT needs.

One of the reasons for this prognosis is the fact that some very large IT vendors are keeping a close eye on the LAMP developments and some, like IBM, believe there will be substantial opportunities in the area in the future. At a recent analysts' event, IBM spent a significant amount of time in discussion of LAMP and its future potential, indicating that the company would be actively participating in the LAMP community. Other companies, such as Sun and Microsoft, may be keeping an eye on LAMP development for very different reasons. But we are willing to put our chips on the Big Blue square of the betting table, given IBM's past track record in getting out in front of emerging technologies and embracing them wholeheartedly well before the market at large. IBM was in the Java camp very early on, and publicly embraced Linux while others continued to dismiss it as tinker toy technology. Certainly IBM's support of such technologies gives their chances of survival and acceptance a boost, but we see IBM shrewdly picking the winners and going with them. Given the company's interest in LAMP, and the unmitigated success of open source Linux, we believe LAMP is going to shine very brightly in the coming years.

Skype Increasing Options with Voicemail

By Susan Dietz

Skype has announced that it is now offering voicemail for its subscribers. Rather than going with the traditional method of buying an answering machine or ordering a service from the local phone provider, users can now use Skype to a similar end. Customers have to subscribe in order to send messages, but do not have to pay for the service to receive them. Beta customers who subscribe to SkypeIn can also receive voicemails from any traditional phone number. The numbers of voicemails a subscriber can send is unlimited, and service can be personalized with different answering choices and by recording the customer's own automatic greeting. Customers can also receive messages up to ten minutes long. Voicemail is compatible with the latest versions of Skype for Windows, Mac OS X, Linux, and Pocket PC platforms. Skype alsos integrate with Microsoft Outlook for finding contacts and Skype users. The voicemail option is available for €5 ($7) per three months or €15 ($19) per year.

Every day the difference between the telephone network and Internet becomes more difficult for the average person to discern. VoIP, and Skype in particular, are muddying the waters even faster, and perhaps deeper. So, is VoIP going to replace all other forms of communication? Many argue that this is the end-all, be-all of communications, but while it is very nice to be able to make telephone calls for free or reduced price, VoIP still has not replaced the traditional telephone infrastructure. Nor is it reasonable to expect that it would to any greater extent than cellular technology has replaced traditional telephone service. Both forms of communication have found their niche in modern life. In the U.S. land lines are critical for 9-1-1 locators. Traditional telephones are also more secure and don't have the static and dropped calls of mobile phones. On the other hand, cell phones are not only ubiquitous, they have proven their worth and desirability by being able to communicate anytime, almost anywhere, and some users have been able to discontinue their landline service.

But overall, consumers did not simply replace their land lines with mobile phones when they had them, but rather simply added to their communication options, and for many we see VoIP as simply another addition to communication choices. However, while we believe this will continue to be the way for those in North America and a few other places where landlines are cheap and plentiful, in underdeveloped or technologically constrained regions we have seen the cell phone leapfrog the landline altogether. Will VoIP do this for another class of user? Quite possibly. In today's global economy, it is becoming more important for people to make frequent, inexpensive phone calls all around the world, and to have inexpensive high-speed connectivity to data networks as well. Solutions that effectively bridge the divide between POTS and the Internet are well positioned for success, especially outside of North America. With its claim of more than 42 million registered users and more every day, Skype has definitely found a market. But that market is not automatically going to be simply displacing other services. Rather we see it as complementary in more mature markets, and perhaps a leapfrog competitor in markets with a less well established user base. Nevertheless, in North America, the average desk still has a land

line or two, a cell phone, a pager, and a computer with VoIP all lined up and usually ringing all at once… and we don't expect to see this change in the near term.

Opening Up Solaris or Marketing Solar Flares?

By Clay Ryder

Sun Microsystems has released its Solaris OS source code as an open source initiative dubbed the OpenSolaris project. The OpenSolaris source code is available for both the SPARC and x86/x64 platforms. The company stated that it believes that this initiative will enable innovation as well as meet the goals of distributing the OpenSolaris source code more widely and create new business opportunities for Solaris OS users and Sun partners. The open source code includes the core operating system, networking, system libraries, and commands as well as Solaris Dynamic Tracing (DTrace), Solaris Containers, and Predictive Predictive Self Healing. Additionally the company indicated that it plans to open source other components of Solaris including the installation tools and would continue seeking to open up code that remains restricted by third parties.

A while back in prehistoric times (late 1990s) we had posited that the long term threat of Linux was not to Microsoft, but rather to the various proprietary UNIX vendors. We believe that time has proved this to be the case, with most providers cozying up to Linux some time ago. In contrast Sun was a relative latecomer to the Linux reality, as it struggled with positioning its flagship Solaris while protecting the revenue stream it represented. Alas, the early 21st century has been a rude awakening to the late 20th century king, and we believe the company's failure to win the hearts and minds of Linux developers has pressured it to change its ways, at least enough to reach out to this fundamentally different community of users and way of doing business.

To be clear, Solaris is an excellent, innovative, operating system filled with intellectual property of which many developers can be proud. But the reality is that in many respects it typifies the monolithic systems vendor solution of the 1990s whereby the hardware and software were single-sourced and presented as an integrated solution. For many in today's market there is a very different expectation with the open source software model being a major force. By opening up Solaris Sun is exposing many of its crown jewels; a sacrilege in the ways of oldthink, but in newthink, an essential mechanism to argue for the relevance of Solaris as a development platform. The shiniest of jewels have little impact locked away in a darkened cabinet, and bringing them out in the light may help Sun recover some of its lost influence. However, simply open sourcing Solaris in and of itself is unlikely to suddenly cause developers to give up their multi-year fascination and commitment to the two leading Linux distributions. While the opening up of Solaris, to our way of thinking, is a logical outreach to developers, it will take a lot more than this to win back those developers and ISVs who have moved on from Sun's platform. Blogs and community Web sites are important; however, ironically, a compelling commercial argument must be articulated and accepted by the community in order for developers beyond Solaris hobbyists to embrace the OpenSolaris project and rekindle development and deployment efforts on the Solaris platform.