Market Roundup

November 9, 2001

IBM Offers Tools for Free

By Jim Balderston

IBM has announced that it is distributing its new WebSphere Studio tools – code-named Eclipse – to the developer community for free. The new tool set supports development of WebSphere applications in J2EE, Web services, XML, HTML, voice, wireless and embedded devices. The new tools include WebSphere Studio Site Developer, a Web services development environment; WebSphere Studio Application Developer, which combines Java and Web development tools; WebSphere Studio Enterprise Developer, supporting visual modeling and application composition; WebSphere Studio Application Developer for Linux; and WebSphere Studio Homepage Builder, a tool to build Web pages for individuals at home or office.

As we have said before, the forthcoming revolution that we call Service Computing will have a significant component of populist, ad hoc construction and deployment driven not by IT but by Line of Business staff who need more granular applications to meet demands of everyday business objectives. While IT staff will have increasing responsibilities for maintaining and assuring availability of services, their role in choosing what applications in what form reside on whose desktops will be ceded to the LOB people. In such an environment, we see the availability of easy-to-use tools, an ever-increasing number of snap-together components and a healthy, engaged developer community as essential. IBM has been talking a great deal about what they call “autonomic computing”; we see this as this company’s thrust toward the inevitable changes that will be brought about under the Service Computing environment. In recent weeks, IBM has released a number of back-end tools and technology that will help IT in their new role, including a number of network management and administration tools that will be essential to enterprise IT in its role as keeper of the computing architecture and framework. In this announcement, we see IBM addressing the other side of the equation – at least partially – in providing LOB staff with the tools needed to pull the plow in their new role as decision-makers in the application deployment front. IBM apparently understands that for the Service Computing model to work smoothly, it makes sense to offer both sides – enterprise IT and LOB staff – the necessary technology to not only go about their separate roles, but to do so in a way that allows the two sides to have synergy and coherence. By tossing these new WebSphere

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tools out into the open market, IBM is not giving away value; they are instead ensuring they are going to be well placed for capturing much high multiples of value down the road.

WideSky Ahead: EMC and Compaq Announce Shared Storage Management APIs

By Charles King

EMC and Compaq have announced a cross-licensing agreement in which the two companies will share storage system application programming interfaces (APIs). The agreement will facilitate each company's development of storage management solutions that will operate on both companies' storage systems. Compaq will license to EMC an API for managing StorageWorks, and EMC will license to Compaq an API for managing Symmetrix. In addition, EMC and Compaq have entered into an expanded cooperative product support agreement. The two companies believe their new relationship will result in an overall simplification of storage management processes for their customers, reducing costs and increasing efficiencies by automating common and business critical storage management processes. No schedules for product development or availability were discussed.

While the EMC/Compaq agreement qualifies as a relatively small announcement from one vantage point, it resonates with larger issues. Practically speaking, the agreement simply provides both companies the means to create management solutions for each other's products. That may not seem like a big deal, but given the notoriously homogeneous strategy that data storage vendors have traditionally followed, the EMC/Compaq agreement offers substantial proof that both companies are serious about embracing the heterogeneous environments increasingly favored by storage users. That the world's two largest storage vendors, who are both leading SAN providers and together share just under half of the total enterprise data storage market, have decided to play nice together hold ramifications for both storage customers and the two companies' competitors. Over time, customers that employ both EMC and Compaq storage products should enjoy increasingly simplified and automated management solutions. The agreement also qualifies as a wake-up call to the companies' rivals. While heterogeneous storage management is something every vendor has given lip service to, most have chosen to pursue smaller, more limited strategic agreements. Given the size and market share of its principals, the EMC/Compaq deal qualifies as the most significant cooperative agreement to date.

Some will point out that the agreement offers both Compaq and EMC equal footing and advantages looking ahead. That may be true, and the deal should certainly benefit Compaq as it aggressively expands the capabilities of its StorageWorks and SANWorks management solutions. But from where we stand, EMC's recently announced AutoIS initiative, which is at the heart of the company's heterogeneous storage management strategy, is likely to be the big winner here. As part of AutoIS, EMC also announced the WideSky initiative to share its storage APIs with other heterogeneously like-minded vendors. That EMC has so quickly reached a shared API agreement with its largest competitor is a testament to the company's commitment to WideSky. Overall, the Compaq/EMC deal is likely to inspire future cross-licensing agreements with other companies, should bolster EMC's claims and aims in heterogeneous storage management leadership, and could qualify as a steppingstone in eventually establishing EMC API's as de facto industry standards.

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H and P Scions Oppose HP/Compaq Deal

By Jim Balderston

This week, descendants of Hewlett-Packard's co-founders said they will vote their shares against the proposed acquisition of Compaq by HP. Walter Hewlett, son of HP co-founder William Hewlett, first announced his opposition to the $21 billion plan on Tuesday. He was followed by David W. Packard, son of co-founder David Packard, who announced his opposition to the deal later in the week. Hewlett's stake in the company represents approximately 5% of all HP stock; Packard oversees 1.3% of HP shares. There is also a Packard family trust, on which David Packard does not sit, which controls approximately 10% of HP's stock. The board of that trust has not issued any opinion on the proposed merger. Walter Hewlett, who does sit on the HP Board of Directors, is the only board member to oppose the deal. The entire Compaq board of directors supports the deal. Approximately 15,000 jobs are expected to be lost as a result of the merging of the two companies. HP CEO Carly Fiorina has said she intends to move forward with the proposed acquisition despite the families' misgivings. No date has been set for the stockholder vote on the matter.

It's been a fuzzy kind of week for HP. First, the company announced a slew of new products and the free availability of its upgraded application server, only to leave industry analysts somewhat confused regarding the company's actual intentions. In a follow-up briefing, termed by HP representatives to be a result of analysts' requests, the presentation seemed to leave even more participants scratching their heads. This was a major product announcement with no coherent set of takeaways and left us wondering just what was going on down in Palo Alto. This debacle was followed by the rather surprising news that the sons of the company's founders were going to oppose the mega-deal between HP and Compaq announced back in September.

We suspect there may be a connection between the two. While Fiorina attempts to reshape HP, she does so against a sturdily built, well-entrenched and vigorously resistant HP culture which came directly from the company's founders, who, among other things, attempted to avoid employee layoffs at all costs. This may seem a quaint notion to many executives these days, but is undoubtedly one many a laid-off employee regards quite differently. This policy, as but one example of the HP way, gives us some glimpse of the headwind Fiorina must be trying to navigate. But this issue that has tended to color HP's external dealings, we suspect, as coherent and cohesive messages from the company are lost somewhere between the idea and the delivery. One has to wonder if Fiorina is facing the same kind of revolt internally – only much less quietly – from HP employees who are not as anxious as she is to jettison the HP way. Judging by this week's events, we suspect her inability to sway to notable members of the HP family to support the Compaq deal may, in fact, represent the least of her problems.

Static or Steady? Harris Poll Shows Online Use Unchanged Since Last Year

By Charles King

A new poll compiled by Harris Interactive suggests that 64% of American adults access the Internet from home, work, school and other locations. This translates to roughly 127 million people aged 18 years and over, up less than 1% from an estimated 121 million Internet users in the previous year. According to Harris, what is most notable about the poll results is that they represent the first period since 1994 that has not seen a sizeable increase in Internet usage, since the <1% increase is not considered statistically significant. This most recent survey suggests that roughly 88% of all U.S. computer users access the

Internet, with 52% of users accessing it from home, 28% from work, and 19% from other locations including schools and cyber cafes. Though the total number of Internet users remained statistically even, there were some notable demographic shifts. Online activity among users 18-29 years old increased by 6% while usage among those 65+ declined by 9%, and usage among adults with a high school education or less declined by 14% while online access among college graduates increased by 10%. While Net usage increased by 13% among users whose incomes exceeded $50,000, it decreased by 6% among users with incomes below $25,000.

To our way of thinking, the data from the new Harris poll can be considered in two ways. First, the essentially static growth of new users might suggest that interest in the Internet is finally losing a bit of steam. Web-focused PR blitzes are fading into history, the few dotcoms left standing are too bereft of funds to contemplate advertising campaigns, and the low-hanging fruit that constitutes most new Internet users has either been plucked or is rotting on the ground. In other words, with the buzz surrounding the Internet dead and gone, online usage is beginning a slow, natural fade to a mean point where it will likely remain. Another view is weighted by socioeconomic factors. Considering the serious, continuing fade of the U.S. economy over the past eighteen months it is inevitable that consumer Internet usage will be impacted, especially among users who regard online access as an unnecessary extravagance, and those with low or fixed incomes. Given the declines in usage among senior citizens, low-income adults and people with limited education noted in the Harris poll, we believe this is a more likely scenario, especially considering the significant usage increases in online access seen among other demographic groups.

This does not mean that, absent an economic downturn, Internet usage would have continued its former ongoing, dramatic increases. It simply suggests that like any other established consumer service online access is sensitive to rising and falling economic conditions. What is unclear is just how far the Internet's penetration into the American experience will eventually extend. The initial adoption rate of online services has easily outstripped other consumer technologies, but despite this success we are not sanguine about the adoption of online access by so broad a segment of the population as the one that watches television or uses the telephone. It is important to note that as younger sectors of the population age, they will carry their Internet habits along with them, as well as pass them on to their offspring. As time goes forward, those exposed to Internet use in their school years will increase as a percentage of the population, expanding Internet usage in day-to-day behavior. However, we are doubtful that simple access to email and electronic commerce can make the Internet as much a part of American life as television or the telephone, and wonder what new Web-based services or content might push the greater population toward a future online.

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