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Market Roundup
August 30, 2002

GM Chooses IBM Regatta for Global Design Solutions

By Charles King

IBM announced this week that General Motors has selected IBM pSeries 690 (AKA Regatta) servers as the basis for a global supercomputing infrastructure the company will use for vehicle design applications. The infrastructure will include multiple systems (including the auto industry's most powerful supercomputer) at GM facilities in Detroit, Michigan, Russelsheim, Germany, and Trollhatten, Sweden. According to IBM, the new infrastructure will increase GM's supercomputing capacity by a factor of four, and will qualify as one of the ten largest supercomputers in the world and the largest in the automotive industry. The IBM infrastructure will be used to run sophisticated crash simulations, as well as computer-aided engineering (CAE) applications to analyze structural integrity and quality, and reduce vehicle noise and vibration. The servers in the infrastructure will be 32-way 1.3GHz p690s with 2GB of memory per CPU, with a total processing power of 2.3 teraflops or 4 trillion calculations per second. No information regarding a deployment schedule, the cost of the deal, or the total number of systems planned for the infrastructure was included in the announcement.

While the GM deal qualifies as a major customer win for IBM, it also illuminates more elemental changes that are worthy of discussion. In one sense, the agreement demonstrates yet again high performance computing (HPC) systems' importance to the automotive industry. While a great deal of media ink has been spilled on the part high-performance visualization and CAD applications play in auto body design, less attention has been paid to more (literally) nuts and bolts CAE applications. As is mentioned in the IBM announcement, these solutions are being used in part to reduce vibration and noise, notably improving the driving experience. That is good news for both automobile customers and manufacturers, because along with creating a more comfortable ride, these technologies are also dramatically reducing the time and money it takes to bring cars to market. But it is the use of these infrastructures in crash simulations that may be the most revolutionary element of these technologies. The fact is that government-mandated physical crash tests are complex, costly, lugubrious processes that require months of preparation and more months of post-event analysis, factors that can slow the overall effort to improve vehicle safety. A few years ago, performance and TCO issues made effectively utilizing computers for crash simulations a pipe dream, but the new IBM infrastructure could offer a powerful, cost-effective solution for accelerating the development and delivery of ever safer GM cars and trucks.

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The other side of this deal is in how it could represent a sea change in how and with whom automotive and other manufacturers pursue their high performance IT needs. Until recently, SGI and Cray were among the biggest traditional players in automotive CAE, but the companies' fortunes have faltered as increasingly sophisticated engineering applications have become available for other UNIX platforms. Another obvious player here is HP, but it is unclear at this point is how the company will proceed with integrating newly acquired Compaq assets into its HPC and supercomputing efforts. IBM is moving quickly and aggressively into this space (to the discomfort of both traditional players and current rivals) and the company's efforts in areas such as grid and autonomic computing should play very well in HPC. We were also interested to note that while GM's new infrastructure is the first commercial deployment among the world's top ten supercomputers (the others are at research labs and universities), that commercial supercomputers make up nearly half of the world's 500 largest supercomputing installations. What does this mean overall? Simply, that as hardware performance continues to climb and hardware costs continue to fall, IT solutions that were once out of reach to all but the wealthiest few will be enjoyed by increasing numbers of enterprises. From what we can see, that could mean that GM's new IBM supercomputing infrastructure might eventually be remembered as a driver for a new business revolution.

¿Donde Está el Netscape?

By Clay Ryder

WebSideStory has announced its latest Web browser usage data which reports that the percentage of Netscape browser usage is now at it lowest point in several years. As of Aug. 26, 2002, Netscape's global usage share had dropped to 3.4%, down from 13% at this time last year, according to WebSideStory's StatMarket report, which aggregates data from millions of Internet surfers per day. Microsoft Internet Explorer now has a global usage share of 96%, up from about 87% a year ago. Netscape fares better in some countries such as Switzerland, where its usage is double the global average, as well as Germany, Canada, and the United States.

This story is punctuated by a set of realities, many of which have been historically pooh-poohed, but which have once again proven their endurance. Reality number one is that Netscape, as a software vendor, was never a long term contender in the market — its product was simply too important to not become part and parcel to operating environments for both the client and server. Reality number two is that operating environments are largely controlled by Microsoft, and it should be no surprise that such an operating environment extension would be cast under the spell of the Redmond Giant. Reality number three is that AOL-TW has become the poster child for lack of clarity, purpose, and execution. Reality number four is that despite Sun's protestations, iPlanet was simply a convenient way for the company to gain access to software to bolster its operating environment and platform.

So where is Netscape? Although AOL's release this week of an updated Netscape browser and the company's suggestion that the latest version of its software will replace the IE-based browser with a Netscape derivative, this seems to come years too late for meaningful market share impact, and also begs the question of whether or not AOL was all that concerned about which browser its customers used. Since AOL is all about content and $21.95/month connections, like many other aspects of the AOL-TW merger it remains unclear what the corporate leverage for a Microsoft-free browser would actually be. So while some may dig in their heels, "fight the good fight," and refuse to ever use IE, the reality is that this assemblage of like-minded citizens will rapidly cease to have any commercial impact. Just as in the early days of broadcasting, when RCA owned radio stations and three television networks, and also manufactured radios, we are witnessing the reality that in a standards-based marketplace, whose radio (or browser) one uses to access content is largely moot. It's what's on the radio that counts. AOL seems to understand this. But do not shed too many tears, as Netscape is alive and well, as a brand, portal, and reminder of good old times gone by. One can still find its software and descendants on Sun equipment (an always amicable relationship), but we believe it is wise to face facts and admit that Netscape is simply not a commercial software company anymore.

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Déjà vu All Over Again

By Jim Balderston

Elitegroup Computer Systems of Taiwan has unveiled the latest attempt at low-cost computing: its Desknote line of portable computers. The Desknote line looks and acts like a portable computer, with one notable difference: it has no battery and therefore must be plugged in to be used. Other interesting elements of the system include its chip selection: Elitegroup uses desktop chipsets from Intel and AMD. Elitegroup offers external battery packs and has priced the Desknote computer at around $1,200, substantially less than portables using mobile processors.

The impetus behind this idea lies largely with the idea that most notebooks spend a vast majority of their working time on desktops, docked into a bay with power, peripherals, network connections, and monitors. Perhaps so, but an awful lot of computing is still done on airplanes, in waiting areas and away from a convenient power source. The real value of today's high-performing laptops is the inherent choice they give the user about where and when the computing gets done. Further raising our sense of skepticism is the whole idea behind decontented computing form factors that, by doing away with capabilities, undercuts the price thresholds for similar computing experiences. The problem is that they don't actually create the same experience.

Remember the much-hyped Network Computer? It was going to have minimal onboard computing power, virtually no storage, come in at the magical $500 price point, require permanent Internet connections, and would be sold by ISPs. Consumers were supposed to flock to it in a time when desktops were hovering at near twice the price. But the NC was slow to market. So slow that regular, full-featured PCs began to drop through the $1000 barrier, then through $700 and so forth. Worse than the pricing issue was the fact that NCs did not actually provide the same computing experience as the desktops they were supposed to replace. Consumers and corporate users shunned the idea of being relegated to second-class general-purpose computing. While low prices may initially provide some appeal for these portable desktop units, we suspect that history will repeat itself, and something in this price range — likely full-featured laptops — will render this product largely moot in the market. Consumers don't flock to products that take valuable capabilities away. They become the drivers of markets around products that are new and innovative, providing them with something they perceive as valuable at a price they can afford.

HP, Dell Announce WordPerfect Agreements

By Charles King

In separate and unrelated announcements, Corel revealed that both HP and Dell have chosen the company's WordPerfect 10 word processing package and Quattro Pro 10 spreadsheet solution to be included as part of the WordPerfect Productivity Pack on some models of the two companies' desktop and laptop PCs. Starting in September 2002, WordPerfect 10 and Quattro Pro 10 will be pre-loaded on Dell's recently announced Dimension 2300 desktops and Inspiron 2600 notebook computers. The two applications are currently available on the company's SmartStep 200N and 250N notebooks. Also starting in September, the WordPerfect Productivity Pack will come pre-loaded on every HP Pavilion computer sold in North America. No licensing or cost issues were addressed in the announcement.

Though not the biggest IT news to come down the pike of late, these two announcements point to a pair of deeper issues we think are worth a few words. First, notice the two vendors who have decided to replace Microsoft's venerable Works suite with Corel Productivity Pack. By dint of its merger with Compaq, HP recently took the lead in PC sales away from Dell, which had somewhat less recently taken it away from Compaq. While the percentages required to accomplish such a change are tiny, first place bragging rights are deemed crucial by all players involved. Good enough but remember also just how thin the profit margins have become in the consumer PC biz. Dell's ascendancy has been fueled largely by the company's remarkable ability to continually squeeze nickels out of its supply chain to an almost magical degree. The continuing dicey

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economy and a bruising merger battle have left HP counting its pennies. The roughly $30 difference in price between MS Works and the Word Perfect Productivity Pack is unlikely to break anyone's budget, but is a notable sum to trim from the asking price or add to the bottom line of millions of $500-800 home PCs.

So much for the monetary side of this equation. At the same time HP and Dell are looking for whatever financial/market advantage they can find, Microsoft has been smarting from highly publicized battles resulting from its ongoing anti-trust wars and controversies surrounding the company's new software licensing policies. In other words, it is not a bad time for PC manufacturers to offer non-Microsoft options to customers who want them. Does HP and Dell's embrace of WordPerfect have any chance to injure Microsoft substantially? Pardon us if we giggle. From a purely practical standpoint, these deals amount to small change on a per unit basis. But in a market this tough, any and every edge is a good edge for HP and Dell. On the other side of the aisle, Corel stands to dramatically increase its market share simply by not being Microsoft. Not a bad week's wages for a company many have long considered down and out, if not forgotten.

What Are the Odds?

By Jim Balderston

News reports indicate that a number of cash-strapped states are considering — seriously considering — expanding legalized gambling opportunities as a means to generate more revenues. New York has joined a regional lottery, and is allowing casino gambling at a handful of local racetracks. Both Pennsylvania and the state of Washington have joined multi-state lotteries while Midwest states are raising taxes on existing riverboat casinos. Arizona, Tennessee, Idaho, and Nebraska have ballot measures scheduled for this fall that would expand existing gambling options. States expect budget deficits to continue for the coming year; this past year forty-six states had deficits totaling $40 billion.

The expansion of gambling — especially casino gambling — is no new phenomenon. But with state budgets mirroring the deficit spending of Washington D.C., it appears that various forms of gambling establishments are going to make headway in states that once turned up their noses at such activities. While the present considerations and ballot initiatives focus on physical sites, we can't imagine that online gaming will remain off limits indefinitely to many of these cash-starved states. We predict that state-operated online casinos can't be all that far off in the future. Instead of just collecting taxes, why wouldn't these states want to reap the full benefit of the house's odds? While casino developers will lobby furiously for laws banning such enterprises, we suspect that the online casinos — complete with the real-life stimulation of wagering and in most cases losing hard earned cash — will not siphon off much business from their real-world counterparts. Instead, it's likely to bolster and encourage those who are mathematically challenged not only to visit real casinos, but to do so more often. Online gambling — like lotteries and real casinos — are essentially a tax, and one that more and more people seem ready and willing to allow. Using online adjuncts to the physical casinos will in all likelihood cement or strengthen the bond between the state government and its voluntary tax base, bringing more revenues into the physical casinos than otherwise might appear. Can we expect such clarity of thinking in the gambling industry — or statehouses for that matter? Probably not. But who knows? With tighter state budgets acting as a coercive incentive, the odds could change.

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