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Market Roundup
December 6, 2002

Windows, Linux, TCO, and Sponsored Research: Jambalaya or Junk?

By Clay Ryder

IDC has released to the media a TCO study that apparently bolsters the argument that Linux is more expensive to administer than Windows, which in turn can make Windows a more cost-effective server solution. The Microsoft-funded study queried 104 North American companies and evaluated costs for networked server computers supporting 100 users over a five-year period. The servers were used for various tasks including file sharing, firewall software, print server, and security server. The report indicated that the largest cost gap was in security servers, where Linux systems racked up $91k vs. $70k in costs over the five-year timeframe. Print server applications were Linux $107k vs. Windows' $87k; file sharing, Linux $114k vs. Windows' $99k; and Web serving Linux $31k vs. Windows' $32k. IDC also indicated that administration costs represent 62% of TCO, which is sizably higher than initial software purchase costs of 4.6% and initial hardware costs of 4.4%.

One would have to be Rip Van Winkle to have not heard the ongoing marketing salvos dedicated to the "Which is cheaper, Linux or Windows?" question. In addition, the same fit of narcolepsy would be needed to ignore the mathematical or physical slight of hand that often takes place in all too commonly bastardized Total Cost of Ownership studies. The cherries on the top of this mess are ongoing news stories about analytically challenged individuals whose objectivity may have been influenced by the lure of investment banking or consulting dollars from the very players they were charged with analyzing. Since TCO studies are arbitrarily defined, at best, the definition of what is an important cost factor and its relative ranking is up to the study's creator. Since there is no one universally accepted standard, it is quite easy to stack the odds in favor of any given result while apparently remaining objective. For example, software usage among businesses is anything but static as suggested by the IDC study. There are few people or organizations using Microsoft-based software that have remained at the same version level for five years — few would be running the software today that they installed in late 1997. In addition, why would those who have just bent over and signed up for Microsoft Licensing 6 want to stay on a single software version for five years? One might also ask which Linux business applications IDC used for comparison that have run unaltered during to same

The Sageza Group, Inc.
836 W El Camino Real
Mountain View, CA 94040-2512
650·390·0700 fax 650·649·2302
London +44 (0) 20·7900·2819
Munich +49 (0) 89·4201·7144

period. But all this aside, the greater issue at play here is the role of sponsored vs. unsponsored market research reports and how they are represented, used, and abused by the vendors, researchers, and the IT industry at large.

While the publishing of sponsored market research is nothing new (there are white papers aplenty to attest to this), one needs to ask whether they were they written because the research company found the topic too hot to pass up or because they were paid for by a vendor with a particular viewpoint to push. When presented as such, said reports represent a view that (hopefully) the analyst agrees with that which he/she has been paid to codify and explain for the benefit of the industry, the sponsor, potential customers, and the analyst community. (Hey, room and board aren't free.) But given the inherent subjectivity of TCO, the lure of revenue in economically depressed times, and the general hunger of market players for any economic boost, the temptation to be placed in compromised positions is all too easy to come by. While IDC indicated that Microsoft paid for this study, other analyst firms have played more loosely with the facts (and funding sources) when guarding the proverbial hen house of objectivity. With all of us who play in the IT marketplace inextricably intertwined with one another, it is in our best interests to come clean on this and other comprising positions such as selling to both vendors and end users and then claiming no conflict of interest in making product recommendations. In light of this, The Sageza Group last spring ended the practice of distributing sponsored research alongside our self-motivated research by creating an entirely different family of products called Sageza Snapshots, which encompass all of our sponsored works. By discrete branding, we seek to maintain a degree of separation between the point of view that we call our own and that which we agree with, but might otherwise not have published. Will other analyst firms take this issue to heart? We do not know, but for the good of IT market overall, we believe it is time that all analyst firms did.

IBM Introduces Linux-Ready p630 eServer

By Charles King

IBM introduced this week a Linux-ready version of the company's p630 eServer, a POWER4-based server available in 1- to 4-way configurations. While the p630 is the company's first 64-bit pSeries server dedicated to Linux, it can also support AIX5L or a combination of Linux and AIX5L in logical partitions. According to IBM, pricing for a Linux-enabled p630 is up to 44% lower than similarly configured Linux-enabled HP servers with Itanium2 processors. Through its Linux Technology Center, IBM offers open source OS features that leverage pSeries systems management, clustering, Internet services, and security. In addition, IBM plans to offer middleware including WebSphere, DB2, and Tivoli management software for the new server. Express Configuration versions of the p630 are currently available with one, two, or four processors and up to 8GB of memory in rack and tower configurations with prices beginning at $15,577.

When the p630 was originally launched in June, we saw it as incorporating key elements of IBM's larger strategy of migrating higher-end (i.e., Regatta) server technologies into its lower-end products to increase their overall business value. While the obvious target for the original p630 was Sun's Sun Fire V480 server, IBM is shifting its sights with the Linux-enabled p630 to HP's Itanium2-based rx5670. While this is entirely practical, it also demonstrates the value proposition IBM offers and balancing act it must follow in the enterprise server market. On the value side, IBM's two main rivals, Sun and HP, are pursuing different yet essentially similar evangelical paths that extol the virtue of their Intel or SPARC processors. Though the two companies' motivations differ, the message is the same: that nearly all of an enterprise's computing needs can be satisfied with a single hardware architecture. IBM, on the other hand, is pursuing a more generalist approach that seeks to develop, position, and deliver whatever computing technologies are most appropriate for a given task. IBM's balancing act, of course, lies in the fact that at the same time the company is pressing the case for its POWER-based pSeries systems, it is also developing and delivering Itanium-based systems through its xSeries group.

So what does all this, including the new Linux-enabled p630, mean to IBM and its customers? To begin, while the 64-bit Linux world is in an early state with limited applications and resources available compared to other 64-bit platforms, corporate interest in open source solutions continues to grow. From that standpoint, the

The Sageza Group, Inc.
836 W El Camino Real
Mountain View, CA 94040-2512
650·390·0700 fax 650·649·2302
London +44 (0) 20·7900·2819
Munich +49 (0) 89·4201·7144

p630 provides IBM's substantial base of AIX customers an affordable, flexible Linux/AIX product for departmental or other server environments, or a development platform for open source enterprise solutions. The preconfigured Express versions of the p630 also offer customers substantial financial incentives to stick with or even explore POWER architecture solutions instead of Itanium-based products. That may, in fact, be the key to understanding IBM's strategy behind the p630. The company made a more sizeable commitment to Linux than the competition, and the arrival of increasingly powerful Itanium processors from Intel and larger numbers of enterprise solutions from a variety of vendors and ISVs means that the 64-bit open source games are about to begin in earnest. At heart, the p630 provides further evidence of the seriousness of IBM's intent to deliver Linux solutions across multiple products and chip architectures. It cannot be described as an easy path to take, but it is one that most of the company's rivals will find difficult or even impossible to follow.

AOL: They Had To Say Something...

By Jim Balderston

AOL Time Warner has announced a new set of strategy initiatives designed to reverse declines in its 35-million member Internet unit, America Online. America Online plans to begin offering premium content to its members, much of it drawn from other AOL Time Warner properties, and will offer premium services like online games for additional fees. The company also said it was abandoning plans to make subscribers sign up for a $54.95/month broadband service and instead is trying to offer AOL for $14.95/month to people who subscribe to other broadband providers, much the way HBO is offered as a premium service over cable systems. The company also stressed that it was seeking to more aggressively cater to customer wishes, including discontinuing third party pop-up ads, a move the company announced last month. In announcing the strategy, AOL executives acknowledged that they did not catch the first wave of broadband adoption, had not been a very cooperative partner in trying to create third party deals with broadband providers, and, in fact, have not maintained the proper relationship with its 35 million subscribers. The company also announced that it expected online advertising revenue to be down by 50% in the year 2003.

AOL has been pummeled over the past year or so as its much hyped merger with Time Warner has fallen almost completely flat, with AOL — the Internet darling with the vision to see into the future — instead looking more and more like a stodgy company that completely missed the latest phase of the Internet revolution. Throw in an accounting scandal, an increasingly dissatisfied user base, and the fact that the company expects its once majestic online advertising revenues to plummet by one half in this upcoming year and you can only reach one conclusion about this flurry of new strategies: AOL had to say something. Anything.

But what AOL outlined is not the stuff of a reborn Internet titan. Broadband is not only becoming more widespread, the process of hooking up such a connection is becoming so easy that many people's mothers — or grandmothers for that matter — can walk through the connection wizards alone or at minimum with the help of support staff. Furthermore, when one adds in the thought that broadband connectivity is becoming much more widespread, the fact that there is always a friend, neighbor, or relative ready to assist in the process makes many people comfortable with the process. In short, America Online's primary selling point of being really easy to use is losing its luster. We also suspect that offering premium content may also fall flat, since there is no shortage of online content for consumers. In many cases what America Online is eyeing as premium content is transplanted directly from the Time Warner stable. If one assumes that AOL Time Warner is willing to cannibalize its content to save America Online — a big if — one has to ask: what's the real difference between Time and Newsweek? Is there really a premium there? Finally, we believe that America Online's intrusive pop-up ads, aggressive selling of customer information, and increasingly hostile attitude toward subscribers in the past few years is finally catching up with the company. The word is out that this is no longer your grandmother's America Online, and that the old girl may be far better off with another ISP. In short, we suspect this bold new set of strategy initiatives was little more than an attempt by America Online to buy a little time, while it tries to think up something that might actually work.

The Sageza Group, Inc.
836 W El Camino Real
Mountain View, CA 94040-2512
650·390·0700 fax 650·649·2302
London +44 (0) 20·7900·2819
Munich +49 (0) 89·4201·7144

HDS Goes After Mid-Market Storage

By Charles King

Hitachi Data Systems (HDS) has announced the new Freedom Storage Thunder 9500V Series storage systems. According to HDS, the Thunder 9500V products are aimed at customers looking for high performance, large capacity storage systems in a small footprint that are optimal for small- to medium-scale consolidation. The new systems come in several configurations. The Thunder 9570V is a rack mountable system with up to 4GB cache and four 2GB/sec ports, and supports up to 224 drives (32TB) of storage per system. The Thunder 9531V, 9532V, and 9533V systems are available in preconfigured, specially priced storage decks ranging from 360GB to 1TB in capacity, and can be upgraded to the 9570 system. The Thunder 9500V products feature a virtualization assist layer that HDS says allows administrators to mix heterogeneous servers on a single port and provide security to the LUN level through Host Storage Domains. The Thunder 9500V Series will be available in January 2002. No pricing information was included. In a separate announcement, HDS and Network Appliance said the companies have signed an agreement to market and sell enterprise NAS solutions. Under the terms of the agreement, HDS will offer NetApp enterprise NAS gateway solutions for Hitachi Freedom Storage environment managed by HiCommand Management Framework tools. The new NAS gateway will be available for Hitachi high-end and modular products starting in the first calendar quarter of 2003.

These HDS announcements hardly qualify as surprising, though the NetApp agreement offers an interesting view into the current nature of IT partnerships. HDS's new Thunder 9500V series is probably best considered a late arrival in an increasingly crowded market. HP's StorageWorks and IBM's FastTseries are well ensconced here, along with StorageTek's D Series machines. But the three have also been feeling pressure from EMC's CLARiiON CX Series (CX200, CX400, CX600), which has been increased by EMC's partnership with Dell (which sells the CX200 through its own organization and channels). Given those circumstances, how does the Thunder 9500V Series measure up? Not too badly, though HDS's shining capacity claims (32TB per system) were quickly eclipsed by EMC's capacity bump in the CX600 to 35TB per system earlier this week.

Technical leapfrogging aside, what chance of success does HDS stand with the Thunder 9500V? Fairly slim, we would say, but not just because the space is already so densely populated. The fact is that while HDS has made its reputation with high-end storage products aimed squarely at the large enterprise market, just how it is perceived among mid-market customers is less certain. Additionally, its OEM agreements with both HP and Sun (who sell its high-end 9900Series machines) will not offer HDS much joy here since both companies offer their own mid-market products.

Which brings us to the curious agreement with NetApp. From a conventional strategic standpoint, HDS and NetApp joining forces could potentially opening new markets for both companies. NAS kahuna NetApp should learn HDS's secret large enterprise handshake and HDS might become a household name among NetApps myriad SMB customers who are ready for the storage big leagues. However, we wonder if the focus and functionality of the partnership is too narrow to do either vendor much real good. Over the past couple of years, a number of vendors have increased their product offerings in order to successfully sell further into existing customers. In the case of EMC and Dell, two vendors with quite disparate client bases and solution sets created a structure that has broadened and profited both. Overall, though the HDS/NetApp deal could provide the principals some discreet assistance, we do not believe it will deliver a similarly broad or positive dynamic.

PeopleSoft Asserts Its Web Services Position into Business Intelligence

By Myles Suer

PeopleSoft has announced the December 2nd availability of PeopleSoft Enterprise Warehouse 8.8, which provides pre-packaged analytic content, a portal interface, and a Web services interface. PeopleSoft indicates 8.8 can reduce the cost and time for deploying, managing, and delivering enterprise analytics. More importantly, PeopleSoft claims it provides immediate access to a consistent view of enterprise data. Its

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836 W El Camino Real
Mountain View, CA 94040-2512
650·390·0700 fax 650·649·2302
London +44 (0) 20·7900·2819
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Enterprise Warehouse consists of an operational data store for offline reporting, a data warehouse for hosting analytical applications, and pre-defined data marts for multi-dimensional analysis. It also includes more than 1,200 pre-defined business metrics. Pricing information was not announced.

We believe that Web Services are a very important technology for Business Intelligence. As important, analytics have no value without data. As Web Services become deployed, data warehouses will be able to integrate more the enterprises' vast data stores. This is a notoriously difficult area and broad claims can be damaging to the credibility of the information management technology as a whole. The practical issues are not exciting but are key to a useful deployment. These issues include data quality, data fusion from multiple sources, formulating relevant analytical searches, and timely and efficient distribution of the results to front-desk people. It should be noted that PeopleSoft's analytic tools are not home grown and were acquired from its relationship with Cognos. Nevertheless, we are skeptical about its claims regarding immediate access or for it obtaining a business advantage from its early deployment of Web services. Data cleansing is a huge part of creating a data warehouse. It does not matter whether the company is only utilizing PeopleSoft software. Each data silo tends to have different data definitions and inconsistency. As we see things, Web Services create a much improved way to connect between the enterprises' disparate databases and way to discovery at a certain level data definitions and file formats.

Given this, we are skeptical that Web Services on its own will give PeopleSoft a leg up on the Business Intelligence competition. The name of the game is now a full portfolio of information management applications from data capture and storage to fused and analyzed information presented through portal-like interfaces to business operative throughout the enterprise. This is only achievable through partnerships, and today this market includes a mix of specialists and equally integrated players to PeopleSoft including but not limited to Business Objects, Informatica Corporation, E.piphany, Inc., Hyperion Solutions Corporation, MicroStrategy, Inc., Oracle Corporation, SAS Institute Inc., and SAP AG. Standing tall with your head held high on the technological moral high ground is one thing, but standing alone in today's market is a completely different matter.

There Is No Excuse for Poor Management! Peregrine Sells Remedy to BMC

By Myles Suer

Peregrine Systems has announced the sale of its Remedy business unit to BMC software last week for a greatly discounted $355 million in cash. The sale is part of Peregrine's efforts to reorganize under Chapter 11 bankruptcy protection. The price fetched is a fraction of the price paid in August of 2001 when Peregrine Systems paid $1.08 billion to buy Remedy, which at the time was a free-standing corporation.

Although we cannot attest to the reasons for Peregrine Systems' financial management woes, we can attest to its poor management and business strategy. When Peregrine went public in 1997, it defined its business as Enterprise Service Desk Software. This consisted of internal help desk software and a series of IT management tools. At the time, the company's major competitors were Vantive (now part of PeopleSoft) and Remedy. During the years that followed, Remedy stayed focused on building software for IT service management and customer support help desk software (including bug tracking software). Most mergers fail to work because there is not enough synergy. In this case the potential did exist to claim a significant position for the internal and external help desk software market. However, in contrast to Remedy, Peregrine continued to expand the markets it serviced to include change management, inventory and configuration management, work management, and asset management, among others. In 2000, Peregrine changed the definition of its business to reducing the fractional cost of doing business for its clients' organizations. With this action, its products and services addressed three principal domains: infrastructure resource management, employee relationship management, and e-commerce technologies and services.

By the time Peregrine acquired Remedy it was going in a hundred different directions. How Remedy fit into the mix was no longer clear, and worse yet Remedy's 9,850 customer sites including over 60% of the Fortune 100 were never given a plan for how the integration would work or which software would be continued or be phased out. With no concrete and clear vision, the two companies were never really integrated while many of

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836 W El Camino Real
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650·390·0700 fax 650·649·2302
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Remedy's top management walked out the door. This business tragedy demonstrates how important it is for businesses to have a clear targeted strategy and the will power to stick to it despite what other seemingly cool things may present themselves. In this case, the merger may have been more successful if Remedy instead had acquired the disjointed and overextended Peregrine at a later date.

Bridging the Gap between Business and Technology: IBM Announces On Demand Innovation Services

By Jacques Halé

IBM recently announced the formation of a new group within the Research Division called "On Demand Innovation Services" to be led by Peggy Kennelly. The new group of about 200 researchers, with a budget of over $1 billion over the next three years, will work in partnership with IBM's Business Consulting Services. The group will focus on Advanced Analytics (business modeling), Business Process Transformation, Information Integration, and Experimental Economics.

At first glance, this initiative seems to be in conflict with the recent acquisition of the PwC consulting arm, now called IBM Business Consulting Services (IBCS). IBM purchased PwC because it did not have the business process capabilities in IBM Global Services (ISG), which is essentially a project; IT integration; and resource management organization. However, on reflection, the "On Demand Innovation Services" group can be seen as a bridge between the technical and the business sides and further evidence that IBM is reorganizing its resources in order to exploit the re-emerging e-business market with services. Most vendors concentrate on the IT aspect and are neglecting the need to support business executives in adopting the e-thing. What is needed is a non-IT approach to process modeling and design. All the new Web Services standards, such as Web Service Architecture and Specification (from W3C), BPMN, BPML, WSCI, and ebXML are very technically oriented. The subjects proposed for the new group could help to bridge the gap between IT and business, looking at the design and economics of processes, and could restore the image of IT in the eyes of the executives tired of the "value-added" of IT. We hope that the term "Experimental Economics" does not frighten them off again.

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836 W El Camino Real
Mountain View, CA 94040-2512
650·390·0700 fax 650·649·2302
London +44 (0) 20·7900·2819
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