

Market Roundup

November 15, 2002

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Michael Capellas Exits HP

By Charles King

HP announced this week that Michael D. Capellas will be leaving his post as president of the company and as a member of the HP board of directors to pursue other opportunities. According to the Wall Street Journal, sources have claimed that Capellas has been informally approved as the new CEO of WorldCom, and may also be named chairman by the company's creditors' committee. The president's position at HP will not be restaffed, and operating executives who previously reported to Capellas will now report directly to company chairman and CEO, Carly Fiorina.

Since Michael Capellas' departure was largely unexpected, it is probably worth considering the current state of the merged HP/Compaq, as well as how Capellas's role in the company evolved over time. We believe that the merger was initially well-planned and executed, but some events since then leave us far from sanguine. HP gained notably from the merger in areas such as PDAs, industry standard servers, and networked storage products, but other areas have fared less well. In particular, we would argue that maintaining both companies' consumer PC product lines probably led to some customer confusion and market fragmentation. More importantly, high-end products like Compaq's NonStop servers and the Zero Latency Enterprise (ZLE) solution have appeared to languish on the sidelines, and HP has been far from erudite in articulating its Utility Data Center (UDC) strategy. Overall, while HP claimed that the merger would enable it to compete better in both low- and high-end markets, evidence suggests that the company has stumbled in both areas while continually being buffeted by a relentless Dell and a re-energized IBM.

In becoming president of HP, Capellas handled the day-to-day running of the company, leaving CEO Carly Fiorina the freedom to chart and direct HP's overarching strategy. While this scenario could have provided Capellas the political stature required to eventually step into CEO position when Fiorina decided to stage a graceful exit, it also left him running a company over which he had no strategic control and positioned him as a fall-guy-in-waiting should the company hit a rough spot. Odd things also occurred on the road to the New HP Way, when the mechanics of the Compaq acquisition were complicated by a bruising public battle instigated and lost by company scion Walter Hewlett. Most rightfully saw this as a public relations nightmare, but it also provided unexpected benefits. By continually crying "Wolf!" over one gloomy scenario after another, Hewlett eventually discredited himself and diverted attention from questions that might have received more attention if they had been more reasonably raised. At the end of the day, Hewlett's intercession left the merger unscathed and Fiorina in a position to coalesce power. Conventional wisdom has suggested

that Capellas's eventual departure was a foregone conclusion from the day the Compaq deal was finalized, but it smells to us more like the fallout from a corporate agreement that banged up against a logistical dead end. Capellas may have decided that he was ready for a new challenge or simply concluded that such a challenge would never come to him at HP. Conventional wisdom aside, HP is now Fiorina's company. Whatever successes it achieves and failures it suffers will be hers and hers alone.

IBM Launches New pSeries eServers

By *Charles King*

IBM has announced two new additions to its pSeries eServer product line. The p650 is a rack-mounted eight-way midrange server that features the company's new POWER4+ processor technology that IBM says is ideal for running ERP, SCM, CRM and business intelligence applications. Built in an 8U form factor, the p650 is available in 1.2 GHz and 1.45GHz models that support up to eight dynamic partitions. The new server is designed to run the AIX 5L OS, including version 5.2, and will also offer native Linux support. In addition, the p650 is capable of running AIX and Linux simultaneously in separate partitions. Along with custom configurations, the p650 is available in six "Express" configurations that IBM believes will meet the needs of most budget minded users. The p650 is priced starting at \$29,995 for a two-way configuration, with planned availability on December 6, 2002. In a separate announcement, IBM introduced the p655, an ultra-dense UNIX server targeted at the high performance computing (HPC) market. The p655 is available in building blocks of four and eight POWER4 processors, and can support up to 128 processors in a single rack, reaching up to half a teraflop of processing power. According to IBM, the p655 occupies as little as one sixth the floor space of an HP rx5670 Itanium2 system with the same number of processors. In addition, Enabling Technologies estimates that the annual power and cooling cost for a p655 is less than half of what is required for a comparable HP rx5670 system. Pricing for the p655 begins at \$72,449, with availability planned for later in 2002.

If any single word describes the prime driver in IBM's server strategy, "broadening" might do the trick. Throughout all its server product lines, the company has systematically identified potentially lucrative target markets then developed servers to fit those spots. The p650 and p655 are the two latest iterations of that effort. With the p650, IBM is attempting to grease the financial and technological rails to entice mid-sized companies to try out or stick with the company's POWER4 architecture. What customers get out of the deal is a highly stable platform for mainstream business processes that also supports Linux (natively or in a partition) for companies interested in deploying or experimenting with open source solutions. One of the more intriguing elements of the p650 is the availability of "Express" configurations. While off-the-shelf industry standard servers are fairly common, extending the idea to midrange UNIX boxes is an eye catcher that could be especially attractive to cost-conscious SMBs.

In the same way that the p650 goes after mid-tier companies, the p655 is designed to pack a serious HPC punch in a radically limited floor space. We believe the trend towards clustered HPC and supercomputing environments is likely to both continue and expand over time. After all, what's not to like? Systems can be designed and deployed relatively easily, and expanded as needs demand and budgets allow. IBM's recent clustered pSeries HPC win with GM for crash testing simulations suggests that the company is finding the market ripe and ready. As can be seen in the pointed comparisons between the p655 and the HP rx5670, IBM also understands the competition. We were interested to note the focus on footprint size and annual operational costs in the p655 announcement. Beyond providing examples of tangible benefits the p655 offers, it also spotlights the fact that initial costs are only one element of deploying such a system and significantly impact TCO and ROI. Overall, we believe that the p650 and p655 address some interesting questions that will likely resonate with many clients. If the rest of the competition is slow on the uptake, customers may turn to IBM to provide the answers they need.

Room by Room

By Jim Balderston

Sony has announced that its RoomLink technology – which is already available in Japan – will be coming to U.S. store shelves in the spring. RoomLink is essentially a hub that allows users to connect PCs, stereos, televisions, and other devices. The device will allow digital photos or music to be shown or played on a television or stereo, the Japanese version allows DVD video to be streamed from one device to another, such a feature will be disabled in the U.S. version. Hard drives on computers, however, will be allowed to function as video recorders. The devices and the required software will be priced at \$199 and the connections between devices can be made through standard cables or WiFi connections.

Sony is not the first, nor will it be the last. Intel has already announced a Digital Media Adapter that will provide much of the same functionality. Other vendors are also trying to get into the game of expanding the PC's place off the desktop and move it throughout the house, albeit room by room. Look for Dell, Gateway and others to begin offering similar devices in the very near future.

Computer makers are waking up to a basic fact of the consumer market and one that should not be lost on vendors focused on the enterprise market. Just adding speed and storage and memory to existing products – that already have enough to start with – isn't really going to move sales of new units. Instead, these vendors are seeing the need to extend the reach of PCs in the home; PCs that have enough horsepower to put off upgrades for years to come. One doesn't need a 2.4 GHz chip to do email, surf, and type a few letters. But if a consumer can look at photos, or record video on a hard drive, or listen to music files on their very expensive audio system, that's real value that consumers are more likely to shell out a few hundred dollars (at a time) to get their hands on. Simply put, shelling out \$1,500 or more for a PC that doesn't do much more than the last two that graced the kitchen nook or home office has lost its ability to drive sales. Similar rules apply to the enterprise market as well. Offering nothing but an expensive upgrade – or whole new product – that does little more than the last one did (or promised to do) is going to be a tough sell. Incremental offerings that add value and change the way people interact with their computing environment, ones that can be offered now as bolt-ons and incorporated in later upgrades, would seem to be a more savvy approach to the cash-strapped IT budgets of 2002 (and 2003, for that matter).

Oracle Announces Collaborative Suite Release 2

By Myles Suer

Oracle has announced its Release 2 of Collaborative Suite, an application that is positioned for enterprise users of Microsoft Exchange. Collaborative Suite provides email, instant messaging, and online meetings; and in addition provides connectivity to voice, fax, and wireless systems. Oracle Collaborative Suite is priced at \$60 per user vs. \$126 per user for Microsoft Exchange. It is also offered as an ASP product offering, hosted through an Oracle data center at a cost of \$10 per month per user. Oracle Collaborative Suite Release 2 is scheduled to be generally available in the first half of 2003.

Collaborative Suite appears to play to Oracle's strength, i.e., large databases. To date, both Exchange and Notes have required multiple server instances in order to support the entire enterprise. In order to search information contained on different exchange servers, additional software has been needed. Typical Exchange installations average 200 users per server, which may seem like a big number to a small company, but it is a mere drop in the bucket for large enterprises. One of the reasons Oracle is able to deliver Collaborative Suite at a reduced cost is that it centralizes mail system functionality, significantly reducing administrative and maintenance processes. Although Oracle is targeting this product at existing MS Exchange customers, the product's features more directly attack IBM's Lotus Notes functionalities such as file sharing. To give significant value to the enterprise, it is hoped the system provides better search technology than Lotus Notes and Microsoft Exchange. In fact, it will be interesting to see if Oracle provides APIs or other hooks to incorporate advanced search engines from Autonomy, Inxight, into its solution, thus creating some

differentiation and additional value add in this market segment.

But perhaps more interesting is the potential effect we believe Collaborative Suite could have on P2P startups including Bay Partners' Intraspect and Accel's Groove Networks. To date, collaborative applications have had limited success in the market, in part because their ROI is so difficult to prove. However, the base functionality of the Oracle solution appears to provide enough demonstrable value to provoke general interest among collaborative ISVs and service providers. At present, for example, there is no widely deployed corporate grade instant messaging solution in the collaborative application market, although several providers have announced their intentions to bring the same to bear in the future. Inclusion of instant messaging from Collaborative Suite could affect vendors such as FaceTime, which has argued that instant messaging is a different market from email messaging systems, and fundamentally shift the value proposition and competitive landscape of the collaboration applications market.

Comdex: The Latest Victim?

By Jim Balderston

Key3Media, the producer of the Comdex trade show, warned Thursday that it may need to file for bankruptcy protection in the near future. The company said it was investigating a number of possible scenarios, including mergers, sales, or other transactions to get out from under its various debt and financial obligations. The company posted a third-quarter loss of \$315 million, including a one-time charge of \$300 million related to the reduction of goodwill and other intangibles. The company lost \$3.7 million in the quarter one year ago, and its revenues dropped from \$51 million a year ago to \$38 million this quarter. The company had already moved to cut costs, including closing shows for next year in Chicago, Montreal, and Vancouver. The Comdex /Networld+Interop show in Atlanta has also been scrapped.

Twenty three years is a long time in the technology business, and Comdex has been hosting foot-tired, cab-starved expense account-abusing vendors, attendees, and press in the garish setting of Las Vegas for as long as most folks in the business can remember. Until recently, it was the show to attend in any given year, and its satellite shows like Networld+Interop were damn near must-attends as well.

But things have changed, and probably have been changing for some time. The big vendors started questioning the value of Comdex a few years ago, and began backing away from paying increasingly exorbitant booth fees. These fees were run up in Las Vegas, an environment that certainly did not foster sober, monk-like focus on the business at hand, and one has to wonder just how many execs asked themselves, "If everyone else here is having as much fun as I am, how much real work can be getting done?" When one combines some of these factors with the glut of press-releases around Comdex — that reduced virtually every single product or technology announcement to just another white or black dot of static — the real value of the conference, beyond a good time, comes into question. And if such is the case for the biggest show of all, wouldn't that be the case for lesser, come-one-come-many shows like Networld+Interop? Of course the drastic downturn in the fortunes of the technology sector has been no help whatsoever, and in fact it may well be that Comdex was sold to Softbank at the peak of the market, far above its real value. While we would be a bit surprised if the show fades into oblivion, we wouldn't be completely shocked. The trend toward more focused, solutions-oriented events is an accurate reflection of an industry that has been forced to pare down its message from "you must have all of this technology" to "here is a particular piece of technology that will solve your problem." That message may not light up the desert sky, but it does land customers.