Market Roundup

September 26, 2003

EMC Proves Mid-Tier Is Not Middle of the Road

By Charles King

EMC has introduced a series of new and enhanced storage offerings aimed at helping mid-tier businesses simplify and automate their networked storage environments. EMC VisualSRM tracks and manages storage consumption, and supports applications including Microsoft Exchange, Oracle, Sybase, and SQL Server databases, and integrates with storage management applications from vendors including IBM, VERITAS, HP, CA, and BMC. EMC VisualSAN provides a single view of all the devices in a storage area network and currently supports EMC CLARiiON systems, and will extend support for other mid-tier storage platforms upon finalization of the SMI specification. VisualSRM pricing starts at $2,000, while VisualSAN pricing starts at $6,000. In addition, EMC announced the availability of enhancements to CLARiiON storage system applications including EMC Navisphere, EMC SnapView, and EMC SAN Copy. Navisphere now provides on-the-fly storage volume expansion, while SnapView offers enhancements of its snapshot and replication processes, along with a new integration module for Exchange. Additionally, the company now provide SAN Copy support to some HP StorageWorks arrays, and will extend similar support for IBM, Sun, HDS, and additional StorageWorks arrays in Q4 '03. The Professional Service offering that delivers the SnapView Integration Module for Exchange (SIME) begins at $6,500.

EMC's interest in the mid-tier market is not especially surprising, since the sheer size and potential of the mid-tier have made it a focus for virtually every major IT vendor. In fact, EMC's extended relationship with Dell reflects some of the depth of the company's long term intents for this sector. However, EMC's new mid-tier offerings follow an approach that is uniquely appropriate considering EMC's historic position in enterprise storage and the evolving IT challenges faced by mid-tier companies. The fact is that the ongoing lowering of IT solutions prices and increases in performance have allowed today's SMBs to easily purchase computing firepower that could recently have been afforded only by large enterprises. But enterprise-class firepower tends to be accompanied by enterprise-sized headaches, at least for smaller companies that have neither the IT staff nor the financial resources to keep up with this explosion of data storage riches.

How is EMC helping its customers deal with this challenge? First, the company is providing tools to simplify the management of its CLARiiON systems and the storage networks they inhabit. Both VisualSRM and VisualSAN ease complex processes that require expertise most mid-tier businesses do not have or cannot afford to support inhouse. The improvements to EMC applications including Navisphere, SnapView, and SAN Copy focus on enhancing the overall value of CLARiiON systems. Additionally, EMC's decision to extend support for SAN Copy to HP, IBM, HDS, and Sun arrays offers an intriguing angle to this story. For some time now there has been a great deal of discussion and self-promotion among storage vendors on the problems of and solutions for heterogeneous storage. Such complexity offers particular problems for mid-tier businesses, which tend to lack the resources to deal with such challenges. Storage virtualization and similarly visionary technologies offer great future potential, but leave unaddressed the pain many businesses currently feel. By aggressively extending SAN Copy to other platforms, EMC is helping its customers solve current problems instead of serving them promises of

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

future satisfaction. This is the sort of action mid-tier and other customers tend to remember, especially when it is time to sign or renew their vendor contracts.

IBM Continues the Commercial Grid Drumbeat

By AJ Dennis

IBM has announced additional products, partners, and customers to its ongoing grid computing commercial market development efforts. On the product front, the company released two new additions to its growing list of grid computing packages, both targeting needs in the financial services industry. The first is a comprehensive customer insight environment while the second helps assess credit risk more efficiently. IBM has also expanded its grid computing partnerships with ISVs Avaki of Burlington, MA and United Devices of Austin, TX. The company also announced six new grid clients including Morgan Stanley and HR consulting firm Hewitt Associates, as well as NLI Research Institute, a unit of the Nippon Life Insurance Group in Japan; T-Systems, a unit of Germany's Deutsche Telekom; IN2P3, a French research consortium on nuclear physics; and Ngee Ann Polytechnic, a college in Singapore. By IBM's count, it has active commercial grid deployments with more than 100 customers, twenty-seven of whom have spoken publicly about their projects. Overall IBM has introduced nineteen industry aligned commercial grid products grouped into five vertical focuses — research and development, engineering and design, business analytics, enterprise optimization, and government development. In addition, the company has engaged with more than a dozen active ISV partners targeting grid solutions during the past year.

From the looks of this announcement, it appears that IBM has cracked the credibility code with regard to developing the commercial grid computing marketplace by — to paraphrase Nike — "just doing it." The emerging grid ecosystem that IBM is touting provides an image of market landscaping, with IBM identifying the contours and high points of available market opportunities, turning the soil and crafting the infrastructure, then selecting the appropriate Big Blue and partner plantings to fulfill the vision of a fruitful landscape. And to help customers implement and maintain this pretty picture, IBM Global Services stands ready, willing, and able to deliver. We find what IBM is doing with grid to be in keeping with the company's long-held vision of developing and owning a principle share of other commercial IT marketplaces. To return to the landscaping metaphor, IBM has taken the grid market's measure, selected key points of presence and significant products to plant, is looking for incremental assistance from willing ISV partners for development and maintenance, and then will let time do the rest.

By quietly creating a demonstrable context for its grid story, IBM is developing momentum that is headed toward a sense of critical mass and velocity. However, the story, while on the charts, is far from number one. Deft handling of the low-hanging fruit in this early market development effort is a credible story, but is incomplete without taking into account the completion's (HP, Sun, and others) strong technology and product development efforts in this space. Also missing are details as to IBM's current revenue and more importantly, future projections and plans for its commercial grid efforts. Given the potential of grid computing and the realities of today's tech marketplace , IBM has realized it cannot go the distance alone, but it can be and apparently is a first mover in crafting a comprehensive approach for developing the commercial grid computing market. In this context, the concept of an ecosystem is appropriate and compelling. Then again, while other vendors focus on understanding technology for business, IBM has thrived on understanding the business of technology.

HP Steps Up and Steps Forward

By AJ Dennis

Hewlett-Packard announced this week that it would protect its Linux customers from any legal action the SCO Group might take against them in SCO's assertions of copyright and other intellectual property infringements within Linux. HP was explicit that its offer was to customers that purchase — after October 1st 2003 — Red Hat Inc. or SuSE Linux AG versions of Linux directly from HP with a standard support contract for installation on HP systems. Additional stipulations include customers' agreements regarding future Linux purchases and prohibitions as to modifications to the Linux source code covered under the indemnification. The company indicated that existing Linux customers who meet the same specific requirements (purchase direct, platforms, support contract, modifications, etc.) and who sign an amended contract can also be protected by this program. In an HP communication that explained the basics of the announcement, the company acknowledged it had not signed an agreement with SCO and has not exchanged monies for this indemnification from SCO.

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

Given the nearly two billion in Linux-related revenue HP claimed last year and the integral role Linux plays in HP's Adaptive Enterprise Strategy, this was a smart move for HP. As the rest of the vendor pack mills about, HP has taken specific and direct action to demonstrate its commitment to its enterprise customers and to Linux. While the entire industry (HP included) hopes the courts will eventually dispel the dark cloud SCO has cast over Linux, HP has taken action and looks good for doing it.

While we see little downside in HP playing this role, as it seems unlikely that SCO will actually pull the pin and sue one of HP's customers, it is a managed-risk scenario. Given the peace-of-mind support this indemnification extends to new purchases of Linux, and the hardware and service to support it, it will be interesting if this move by HP attracts customers from other Linux vendors or if their competitors immediately, defensively follow suit. It also represents a real up-side for HP to manage a small step forward in asserting leadership in the Linux market that is, after all, substantially more than HP's mercurial quarterly assertions of leading in market share.

Dell Goes Small

By Jim Balderston

Dell Computer has announced that it will begin selling a PowerEdge server with Windows 2003 installed for under $1,000. The PowerEdge 400SC comes with Windows 2003 Standard Edition, which includes Exchange 2003. Dell said that this latest offering is designed to appeal to small and medium businesses that need easy to use server products. The company said it would continue to target the SMB market space and has a number of low-cost server, storage, and connectivity products directed at businesses with less than 500 people.

It should not come as any surprise that Dell is moving aggressively into the SMB space. They do so as part of a growing herd of IT vendors designing, building, and offering a wide range of products specific for the middle tier enterprise and even reaching down to the larger small business. Dell's opportunity to sell packaged solutions running Windows will appeal to many SMBs that already possess a sufficient level of Windows expertise, and one would expect their commodity-like pricing to be popular as well.

As we have noted before, the interest in the SMB space — especially the middle tier — has become something of a phenomenon for vendors normally associated with selling their products and services to the large scale enterprises. This is no fad, for the simple and enduring reason that most medium tier businesses of 2003 look very much — from an IT point of view — like the large enterprise of the early or mid 1990s. The needs of the middle tier in 2003 — be they storage, server capacity, or management, scaling or middleware — are the same needs their larger cousins experienced not all that long ago. As a result, large vendors like HP, IBM, and EMC have been creating and marketing products to the middle tier that have many of the same virtues as the products they sell to the large enterprise today, absent some speeds and feeds features that are not necessarily in demand within the middle tier. These products bring value propositions like reliability, failover, and ease of use, at lower price points. For Dell, trying to find success by commoditizing products in this market may boil down to a simple race between their products and the sophistication levels of the mid-tier market. Just as IT demands have grown in this space, so have — to a lesser degree — the levels of IT sophistication and expertise. Dell's success in this arena, we would argue, will come because they are able to sell boxes without a fully fledged VAR or channel in place to support those products due to increased middle-tier IT expertise. We are not sure if such expertise is now widely in place within the middle tier, but suspect that Dell's success or failure in this area will be very telling in that regard.

AMD Launches Athlon 64 Processors

By Charles King

AMD has introduced its new Windows-compatible Athlon 64 processors for desktops and notebooks. The Athlon 64 for notebooks features AMD PowerNow technology to reduce power consumption and extend battery life. In addition, AMD introduced the Athlon 64 FX, a processor specifically designed for gamers, digital content creators, and PC enthusiasts. According to the company, the Athlon 64 FX enables a "cinematic" computing experience that provides a level of computer graphics realism similar to DVD-quality films. The company also stated that more than 150 manufacturers and infrastructure partners including HP, Fujitsu, Fujitsu-Siemens, and Packard Bell are developing Athlon 64-based products, and Microsoft announced the release of a beta-version of its Windows XP 64-bit Edition, which is expected to ship in the first half of 2004. Additionally, PC retailer Best Buy announced plans to sell Athlon 64-based systems, as well as an Athlon 64 processor-in-a-box product. The AMD Athlon 64 processor Model 3200+ for desktops is priced at $417 in 1,000 unit quantities, and Models 3200+ and 3000+ for

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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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notebooks are priced at $417 and $278 in 1,000 unit quantities. The AMD Athlon 64 FX in the FX-51 series is priced at $733 in 1,000 unit quantities.

When considering computer processors, it is best to focus on both the market "buzz" and the actual market, which are occasionally complementary but discreetly separate entities. On the buzz side of the equation, 2003 has thus far been AMD's year, a surprising turn of events considering the company's usually secondary role in a processor market long-dominated by Intel. First with Opteron and now with Athlon 64, AMD has successfully developed and delivered products based on an approach essentially ignored by Intel, but which has resonated in the larger market. Contrary to Intel's insistence on developing separate 32- and 64-bit chip architectures, AMD's Opteron and Athlon 64 products utilize the AMD64 technology, which simply extends the 32-bit instruction set to 64-bits, allowing full native support of both 32-bit and 64-bit applications. This engineering elegance and notable flexibility of this hybrid approach has caught the market's attention, especially since the performance of AMD's products reportedly matches or exceeds Intel's competing solutions. In other words, AMD has, for the first time in its long-held role as an Intel follower, effectively reversed roles.

Good enough, but what does this mean in actual market terms? Intel has said that there is little if any demand for hybrid servers or 64-bit desktop platforms, and the company is essentially correct. Opteron is well-regarded but it has yet to make much of a commercial dent, though the processor has seen some uptake in the high performance computing space, a good place to be considering the growing popularity of clustered HPC and supercomputing systems. While there may not yet be a huge demand for Opteron, its successful use in cutting edge, high-performance systems could create the buzz it needs to move successfully into the commercial market. We see some interesting analogies between AMD's positioning of Opteron and the Athlon 64. While the desktop and notebook versions of the chip will require the official release of the Windows XP 64-bit Edition to gain significant traction, the Athlon 64 FX is tailored to satisfy the appetites the PC gamers, enthusiasts, and game developers, groups which commonly help make or break the reputations of emerging technologies. If the Athlon 64 FX delivers the performance/capabilities AMD advertises, it could provide enough buzz to drive broader commercial sales. Overall, AMD's efforts around Opteron and Athlon 64 are a radical departure from its traditional behavior. Rather than pursuing existing markets or waiting for new ones to mature, AMD is instead actively developing new opportunities. This is the behavior of a potential market leader, not a secondary follower, and suggests that AMD is unwilling to pursue a future that merely reflects its past.

Vote Security: A Lesson

By Jim Balderston

Published reports indicate that numerous concerns have been raised about electronic voting machines manufactured by Diebold Election Systems, of which 33,000 are presently used in thirty-eight states. A report conducted by an independent firm indicated that the systems were at a high risk of compromise, in which vote tallies could be reconfigured and in many cases attacks on the system could be done without leaving any sort of audit trail indicating that vote tallies had been changed. Diebold moved this week to shut down the Web site of one of the company's most vocal critics, and successfully had this individual's site shut down. Other sites, with largely identical content, have sprung up in its place and information from the original closed Web site has been reproduced on other sites as well.

Given the circumstances surrounding vote-counting procedures in the last presidential election, one can easily see that such an issue would be one of interest to members of the public. The idea that "every vote counts" is especially true in close elections and there is no reason to think going forward that the country will not be having a significant number of too-close-to-call election nights. But as we watch Diebold respond to both individuals and research firms expressing concerns about their machines' security, we see a cautionary tale for IT vendors across the spectrum. In other words, this is a textbook case of how not to respond to security issues raised by third parties.

As we have noted before, security is an ever-evolving game of measure/countermeasure. For each new security gizmo, there will inevitably be a means to circumvent it in some fashion. As such, we see the evolving culture of security testing —whether through white- or black-hat efforts — as one that is not only inevitable and irreversible but one that is essential to maintaining baseline levels of IT security across the industry. While such efforts may bring occasional embarrassment to an IT vendor, we believe this is a small cost compared to the potential harm that could be done to the vendor's customers, and ultimately the vendor themselves if such warnings are ignored. It must also be noted that Diebold's attempt to silence an Internet-savvy critic has had much the same effect as

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

trying to put out a trash can fire by squirting lighter fluid into the receptacle. Now not only is the trash can afire, the desk is smoking and the curtains are alight. Attempting to stamp out the voice of an online critic — be it an amateur journalist or a hacker of some variety — is simply a fool's errand given the interconnectedness of the Internet. In doing so, not only has Diebold apparently spawned other critics, it has elevated the issue far beyond a single Web site, moving it further up the media hierarchy until it is now fodder for some of the nation's largest news organizations. An annoyance may have been turned into a major public relations gaffe. In our minds, third-party scrutiny of security measures not only provides individual IT vendors a valuable service, but goes a long way toward maintaining a appropriately high bar for the industry as a whole when evaluating IT security issues. In our mind, that's a valuable trade-off for the occasional egg-in-the-face moment.

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836 W El Camino Real
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