
Market Roundup

October 24, 2003

Red Hat Announces Availability of Red Hat Enterprise Linux 3

IBM Rolls Out Content Management for the Mid-Tier

HP's Professional Services Readies a Solutions Portfolio

A Sign? Not Really



Red Hat Announces Availability of Red Hat Enterprise Linux 3

By Tracy Corbo

Red Hat has announced the availability of Red Hat Enterprise Linux 3. This product release focuses on scalability, performance, and extended system platform coverage with the intent to extend the reach of Linux to different types of IT deployments. Key changes to address these include a native POSIX threading library for improved performance; larger SMP, memory, and I/O configuration for enhanced scalability; a single code base for improved code stability, maintainability, and security; and expanded platform support including Intel x86 and Itanium, AMD, AMD64, IBM eServer zSeries, iSeries, and pSeries as well as the IBM S/390. Red Hat also announced an annual subscription service for Enterprise Linux 3 that includes Red Hat Network, an Internet-based systems management solution for maintenance, asset management, and security of Red Hat Linux systems. In addition to support from ISVs such as BEA and Oracle, Red Hat OEM partners announced that they would deliver Red Hat Enterprise Linux 3 in pre-configured hardware solutions within the next thirty to sixty days.

Oh, what a difference a few years (along with a bust economy) can make. Penny pinching and tighter IT budgets have prompted the move of many of these quiet little Linux test projects out of the lab and into production. While vendors have been busy retrenching, downsizing, and trying to figure out how to make a buck in this new economic reality, customers have been carefully reassessing their IT needs and these needs are clearly changing. Perhaps it is time for vendors to take note that the pendulum has swung in favor of the customer, not the IT vendor, being in charge. Customers are demanding more flexibility, tighter and cleaner integration across vendor platforms, and better service and support. IT vendors can no longer simply be order takers, they must become less product focused, and more customer-focused if they want to remain relevant.

The mainstream market adoption of Linux shows that customers are not afraid to take their business elsewhere. This provides opportunities for companies such as Red Hat to demonstrate that there is still room for innovation, refuting the argument that because times are tough everything has to remain status quo. Often, some of the best innovations come in the face of adversity; something that anyone with a heartbeat during the last three years has no doubt noticed. Kudos to those who stuck to their vision for Linux despite the naysayer. Now as we appear to be on the cusp of a recovery, a new question will arise: Do these relatively small Linux purveyors have the wherewithal to flourish during the boom times as well as the bust or will they become acquisition targets for established players, who in some cases, were the very ones pooh-poohing Linux, and dismissing it as yet another operating system that the market did not need? The little penguin that could has overcome many obstacles to enjoy its day in the limelight and with predatory eyes upon it, Red Hat is taking Linux forward from fantasy into reality.

IBM Rolls Out Content Management for the Mid-Tier

By Jim Balderston

IBM has announced DB2 Content Manager Express, designed to manage various types of non-relational data such as contracts, documents, media and other records that are non-structured data forms. The DB2 Content Manager Express is a slimmed-down version of the existing DB2 Content Manager, and is priced at \$9,375 per server and

\$1,063 per user, which includes a year of maintenance. The new offering is the latest in IBM's Express portfolio, and is available now. The company also announced the availability of DB2 Content Manager for Linux, designed for larger enterprises.

This continues an apparent pattern of behavior from major IT systems vendors — migration of their top-tier products down market into the mid-tier — and IBM's latest Express offering is the latest example of the trend. Such a move should not be surprising, as mid-tier companies continue to generate and amass huge amounts of information in a variety of forms and formats. Much of this information can be stored on relational databases but even more of it is in forms that require a whole different level of management. Dubbed "content" by the industry, this information could be any format from contracts to medical records to PDF files, or even audio or video. Content management is no passing fad; it is a real and ongoing problem for enterprises of all sizes and represents a significant market opportunity. EMC's recent decision to purchase Documentum, a content management specialist, underscores this point nicely in our mind.

IBM's continued efforts to create mid-tier-specific products under the Express umbrella will, we believe, serve the company well in the coming years. When one considers that many of the thousands of worldwide mid-tier enterprises now have IT deployments similar to or even more expansive than those of large enterprises of just a decade ago, one can see the potential market for these products more clearly. IBM's efforts to actively court this market on the broadest possible front — with not only products but middleware, tools and support for channel partners — continues to leave us duly impressed. IBM has made a company-wide commitment to the middle tier, and in the execution of its strategy to capture a sizable part of this market we have seen a coherence of vision and execution, especially considering IBM's size and long-term commitment to the large enterprise market. IBM officials continue to try and reposition the company as not strictly a large enterprise IT vendor, but one that has something to offer to the mid-tier market as well. This latest addition to the Express portfolio gives them yet another solid piece of the puzzle that they hope to convert to a major piece of the pie.

HP's Professional Services Readies a Solutions Portfolio

By AJ Dennis

This week HP announced a portfolio of nine solutions and services utilizing the XML-based capabilities of the new Microsoft Office System. These offerings include .NET technologies, Microsoft Office, Windows Server 2003, SharePoint 2003, and Exchange Server 2003 and will be available worldwide through 1,500 HP Professional Services specialists in Microsoft Office System and Web Services. The company indicated that it viewed these offerings, which are principally focused on improved collaboration and information sharing, along with the Proliant server as the deployment platform, as proof points of HP's commitment to business agility, a core tenet of its Adaptive Enterprise strategy.

This announcement reflects three key elements in HP Professional Services means and methods that have always been there but never highlighted: leverage, partnering, and packaging. HP is a highly credible developer of Microsoft integration and value add, with extensive experience and domain expertise given the years of partnership with Microsoft and working with customers to deploy custom implementations of Microsoft software on Proliant servers. This portfolio approach leverages and packages this experience and credibility and when needed adds partnering with value-add ISVs such as Brightworks (work management).

Beyond a dearth of go-to-market details in this announcement, there remain for us two big questions. First, can this professional service organization move beyond its comfort zone within its traditional higher-margin deliverables and deliver quality at a price? Second, can HP's product-driven field sales force learn how to sell consulting and integration no matter how well packaged? Both questions are as much cultural as they are operational and both are mandatory in today's IT markets. Change is hard in any organization, but HP seems to have a singular problem with change. Not in the big things, like merging two titans of the computing industry, but in the little things that plague many large companies, like cooperation, coordination, and communication within and across their businesses. For us the taste of the pudding will reflect whether HP Services can transform excellent custom tailoring into off-the-rack personalization with the volume required to positively impact the brand image as well as the bottom line.

A Sign? Not Really

By Jim Balderston

Disk drive makers Maxtor and Seagate both reported better than expected earnings this week. Maxtor reported \$1.07 billion in revenue for the last quarter, well above the \$991 million expected by Wall Street. Seagate reported revenues of \$1.74 billion, above the expected \$1.64 billion. Both companies claim they are benefiting from new PC orders, with orders for new notebooks and desktops rising by approximately 4% this year, and a larger amount next year, according to industry projections. A number of commentators have argued that the surprising results from these two companies indicate the technology market is on its way to a full recovery in the relative near term.

We believe that for these two companies, things are clearly improving, despite the fact they offer a true commodity product with microscopic margins. As such, we suspect that the cause of these better-than-expected financials rests on a number of factors, which, taken in their totality, do not necessarily indicate a turnaround for the IT sector in the near term. First, we suspect that the grim realities of being locked into selling a commodity product has forced these companies to tighten management controls, and squeeze each and every penny they can from each unit shipped. In other words, they may well be more competently managed today than they were a few years ago. Unforgiving markets can be highly influential in these situations. Seeing Maxtor and Seagate surviving when many others have abandoned the field, we would argue they must be doing something right. At the same time, the growing needs of the desktop and notebook PC market is a source of more sales for these companies, no doubt. But we believe the PC market is one that while showing some growth, but not the kind of growth that will lead the tech sector back onto the front pages of the Wall Street Journal, day in, day out, in the next few months.

We also believe that disk drive companies, like full-blown storage systems vendors, are not going to see a diminution in the demand for their products anytime soon. Regardless of the state of the economy — or the financial status of any individual company — data storage needs continue unabated. A company having a poor year financially is still generating mounds of information. This holds true up and down the food chain, from the largest Fortune 500 behemoths to the smallest SMBs. While one can say that the information economy has done away with many of the waste byproducts of the earlier Industrial Age, the enterprises competing in the 21st Century economy have to deal with a new byproduct: data generation and storage. We suspect that companies like Maxtor and Seagate are enjoying the fruits of this data generation as their customers seek newer, larger, and often higher-margin storage devices to cope with the new piles of information they generate each day. Good news for Seagate and Maxtor? Probably. Sign of a tech recovery? Probably not.