
Market Roundup

January 9, 2004

Why Is IBM So Dense?

Microsoft's Anti-Linux Ads vs. Open Source Momentum

Smarter, Not Smaller

Veritas Acquires Ejasent

Heads Up!



Why Is IBM So Dense?

By AJ Dennis

IBM has announced two new additions to its eServer line: the BladeCenter HS40 and the eServer xSeries 365. These products both feature the latest Intel Xeon MP processors and are touted for their slim design characteristics as IBM promotes its focus on server consolidation and the density of server design required for tomorrow's datacenters. The rack-mountable BladeCenter, which is the infrastructure component that hosts IBM's blade server line, fits up to seven 4-way HS40 servers into a 7U rack-mount footprint. The HS40 blade servers feature eight DIMM slots, for a maximum of 16GB of RAM per 4-way blade, and four on-board NICs, with four more cards allowed for additional connectivity options such as Fibre Channel switches or Layer 2-7 Ethernet switches. The BladeCenter HS40 will be available beginning in February with pricing to be announced. The rack-mount eServer xSeries 365 has five PCI slots with space for twelve more and can be configured with up to 32GB of RAM. It is available now for shipment with a starting price of \$6,039, configured with one processor, no hard drive, and 2GB of RAM.

IBM, adding a new IT corollary to the old adage "you can't be too thin or too... dense," clearly believes it is in the IT Space Race as it designs and delivers powerful and compact server components for today's IT consolidation efforts that will additionally fit very well into the industry's emerging virtualization and utility computing paradigms. Such datacenter compute models are focused on a more integrated and highly managed infrastructure offering more flexibility and value, requiring fewer personnel, and helping businesses significantly cut IT costs. One example of IBM's commitment to this model is its processor choices and design commitments within the BladeCenter offerings. Offering both IA-32 and the Power PC processors (due later this quarter), they feature power and density on one axis of the model; and more flexibility and management on the other axis. An example of this flexibility and manageability is IBM's recent release of the Intelligent ThinkDynamic Orchestrator, an on-demand software offering, which integrates from the individual blade, through management features in the BladeCenter, all the way up to IBM's Tivoli management software, that automates tasks such as automated server provisioning.

Why is IBM so dense? Because this is where a large percentage of today's consolidation dollar will be invested and where tomorrow's virtualization / utility computing crop will be harvested. This is also, where IBM's mainframe heritage gives it an edge in delivering on its on-demand ebusiness promises. But a word of caution: these are excellent hardware ingredients that bode well for this highly integrated and managed future computing environment, but it is software that the differentiator of tomorrow. Orchestrator-like offerings will differentiate the taste of the pudding far more than the next series of hardware options amongst the various competitors each with their own excellent hardware ingredients.

Microsoft's Anti-Linux Ads vs. Open Source Momentum

By Charles King

Microsoft has launched a six-month advertising campaign in IT industry magazines encouraging readers to “Get the Facts on Windows and Linux.” The ads include the URL of a Microsoft Web site that offers links to “Independent Analyses and Industry Case Studies” that bolster Microsoft’s claims of Windows solutions superiority over Linux counterparts. In addition, Microsoft has included a featured link to the site on its Press Pass home page. In an unrelated event, the Israeli government has suspended purchases of Microsoft products and upgrades, which it plans to replace with Linux and Open Office, an Open Source office productivity suite. According to press reports, the Israeli government made the decision after Microsoft refused to offer Israel the same steep volume discounts for Windows and Office (from a list price of \$600 to \$37 per seat) that the company recently granted to Thailand. In a separate event, China's Red Flag Software and Japan's Miracle Linux announced plans to develop “Asianux,” a Linux-based server operating environment with a shared Linux core that would enable interoperability between the two companies' solutions. The companies said work on the joint solution would proceed at Oracle’s software development center in Beijing.

In a tangible sense, events in Israel and Asia represent the two sides of the Open Source pincers currently squeezing Microsoft, though the Israeli side of the mechanism is at least partly the result of Microsoft’s own business practices. Redmond is often portrayed as a singular proponent of “Bloat-ware” solutions loaded with superfluous bells and whistles, but this product development model is a well-established American tradition. The automobile industry, for example, annually introduces optional features that often become industry standards over time. But auto makers benefit from this strategy by offering a variety of vehicles that appeal to a wide range of drivers. Microsoft, by comparison, insists that everyone buy and drive the same luxury Office SUV, no matter what their actual needs are. While Microsoft insists that the accretive value-add of its products fully justifies their price, companies and countries are increasingly doubting those benefits. For many, alternatives like Open Office or home grown Open Source applications offer cheaper, if less powerful, solutions that still get the vast majority of users where they want to go. This is the path Red Flag and Miracle Software are taking with Asianux. By developing a business-focused Linux OS that fits the special requirements of Asian enterprises and governments, the two companies hope to hit Microsoft where a considerable part of its global expansion hopes live.

In light of all this, Microsoft’s ongoing attacks on Linux, as exemplified by its “Get the Facts” campaign, seem curiously empty. At least one of the analyses featured on the site was identified as a study sponsored by Microsoft, directly undercutting its supposed “independence.” In addition, the 2002 publication of several other reports leaves them seriously out of date as regards the current state of Linux solutions. Overall, we see the company’s response as essentially thin and shrill. Microsoft’s sheer bulk and market momentum should tend to blunt many of the dangers posed by Open Source alternatives. However, if “Get the Facts” is the best defense Microsoft can come up with against Linux, more serious problems will be waiting for the company further down the road.

Smarter, Not Smaller

By Jim Balderston

IBM announced this week that it was eliminating 300 direct sales positions from its software group and said that it has offered positions in telesales or Internet sales to the affected employees. The company said its decision to cut the direct sales force for software was part of an ongoing plan to reorganize its sales efforts, especially as it relates to small and medium-size business software sales. The cuts represent less than one percent of the 38,000 positions in its software group.

Given the recent histories of major enterprise IT vendors cutting payrolls to find profitability, one might ask if IBM is beginning to follow this pattern, albeit in a more gradual drip, drip, drip kind of way. While these cuts represent a tiny fraction of the company’s software group, are we seeing signs that IBM is going down the path followed so aggressively by HP since its acquisition of Compaq? Not in the least. Instead, we see the move as one

step in a very coherent plan to aggressively court mid-tier enterprises by focusing efforts on existing channels and purchasing behaviors.

By eliminating some 300 direct sales rep positions, IBM is potentially offering yet more market share to its ISV partners. In respect to the mid-tier market, we see this as a sound strategic move with positive long-term consequences. Since nearly all mid-tier enterprises make IT buying decisions either through or in consultation with various channel partners, giving these partners a larger opportunity to profit from sales of IBM products makes sense. When one considers that these ISVs own not only the relationships with their customers, but also the industry vertical expertise that allows them to close long sales cycle deals, IBM has intelligently decided to get its own people out of the way of these valuable partners. The fact that IBM is reducing its direct sales will not be lost on those ISVs, who should regard this move as further evidence of IBM's commitment to making significant inroads into the mid-tier market while enhancing ISV revenue opportunities. Cut to profitability? Hardly. Reorganizing to create maximum leverage of existing customer buying behavior? Precisely.

Veritas Acquires Ejasent

By Charles King

Veritas has announced that it signed a definitive agreement to acquire Ejasent, Inc., a utility computing product developer, in an all-cash transaction valued at \$59 million. Veritas expects the acquisition to be completed by the end of January 2004. According to Veritas, Ejasent's application virtualization technology offers a key building block to the utility computing strategy Veritas announced in May 2003. Ejasent's UpScale software allows applications to be moved from one server to another without disruption or termination. The company's other core product, MicroMeasure, enables usage-based metering and billing of datacenter assets including servers, storage, and application transactions by departments and specific users. Veritas expects to deliver UpScale and MicroMeasure products in the second quarter of 2004. UpScale will be available initially on Solaris, with a Linux version scheduled for early 2005. MicroMeasure runs on Solaris, Windows, Linux, and HP-UX.

The concept of utility computing, where applications, servers, and storage would be seamlessly available across an organization in much the same way that electrical power is, has been bandied about for a long while. But the most recognizable utility computing solutions to date have been promoted by systems vendors like IBM (On Demand), HP (Adaptive Enterprise), and Sun Microsystems (SunONE). This is a logical enough evolutionary path. Since utility computing seeks to bring all of an organization's IT assets under a single and singularly managed umbrella, it is natural that vendors who focus on end-to-end systems solutions would make the initial forays here. However, these vendors' initial utility offerings have tended to focus on their own products, rather than the more encompassing heterogeneous solutions envisioned by utility computing promoters. This, again, is natural enough, since it is in vendors' best interests to focus their attention on solving the problems of their loyalist customers.

But during the past year, some interesting tremors have been disturbing the utility computing landscape. Just last month, EMC's acquisition of VMware, a virtualization partner of vendors including IBM and HP, suggested that virtualization could be tailored to enhance the company's larger Information Lifecycle Management strategy as a key element of systems management. Veritas's strategy announcement last May, along with its acquisitions of Jareva Technologies, Precise Software, and now Ejasent, demonstrated that the company believes its partnerships with virtually every major hardware vendor place it in a good position to control the disparate, heterogeneous strings of utility computing. The real question here is whether customers will be willing to believe Veritas's and EMC's arguments that their experience as "best of breed" mavens whose solutions already work with multiple IT solutions make them better utility computing bets than homogeneous IT vendors. If enterprise customers buy those claims, the future of utility computing could be notably different than its past.

Heads Up!

By Jim Balderston

Apple has announced a new version of its popular iPod music storage and play device, the iPod Mini. The new device will store approximately 1,000 songs on 4GB of storage. The new device is the size of business card and

approximately one-half inch thick and will be priced at \$249. The older, original iPod has 10GB of memory which will be expanded to 15GB in the latest version which will continue to be priced at \$299. Apple said it had sold more than 730,000 of the original iPods in the fourth quarter of 2003 and has sold more than 30 million songs from its iTunes music store, which sells songs at 99¢ each. Apple said the company was selling 1.9 million songs per week in late December and the company cited Nielsen/Net Ratings data that indicated that the iTunes store held 70 percent of the legal online music download market.

Steve Jobs joked during the announcement of the new iPod Mini that it was finally good to be beyond the 5% market share figure for an Apple product, a reference of course to the company's meager desktop market share. The company clearly has a hit with the iPod devices and with its iTunes music store, showing innovative flashes that once made the company a much more formidable player in the desktop market space. The new iPod Mini, in our mind, indicates the latest attempt by Apple to extend that innovative advantage. One would argue that being out on the cutting edge requires nothing less. Here, a smaller form factor and a moderately lower price point will no doubt keep Apple's sales continuing, despite increased competition from a host of other vendors. Imitation, flattery, et al.

We believe the success of the iPod in the consumer gadget space could very well be a harbinger of things to come, most notably within the enterprise. Like many technologies or developments that were once seen as being strictly consumer focused — yet which made their way into the core of the enterprise — we suspect the idea of carrying one's digital world around in a portable storage device is something that may become a consumer-first behavior that seeps inexorably into the enterprise. When one considers that multi-gigabyte storage devices are now the size of business card and will only shrink in the coming days, a vision of future enterprise computing that includes allowing people to carry their work worlds in their shirt pockets seems not so far-fetched at all. Connecting to the network will provide up-to-date versions of these worlds, which can be easily carried from place to place, facilitating lighter versions of laptops and desktops while at the same time allowing for a great degree of centralized management and control from the enterprise IT side of affairs. We don't expect to see iPods in the corporate board room in the very near term, but we do suspect that many a tech savvy consumer will begin having new expectations about information portability that goes beyond present day realities. For those vendors seeking to move with the flow of the customer demand, such developments should be closely watched, indeed.