
Market Roundup

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When Does 2 Equal 1? Intel Takes Dual Core to Heart

By Rob Kidd

Intel has announced that it will not release a 4GHz Pentium 4 chip but will instead improve total chip performance by adding a faster chip bus and additional cache while capping clock speed at 3.8GHz. The company acknowledged that having higher clock rates may be less important than overall chip functionality; thus Intel plans to focus on adding chip features such as Vanderpool Technology, a virtualization feature; LaGrange Technologies, hardware-based security features; EM64T x86 64-bit instruction set extensions; and Active Management Technology (AMT). Many of these features may not be fully exploited in the Windows environment until Microsoft releases the Longhorn operating system. Intel indicated that it will offer dual-core chips and eventually plans to introduce versions first for servers, then for desktop and mobile platforms. In a separate announcement, Microsoft indicated that it would only require a single software license for dual-core processors. Customers who purchase a number of Microsoft product licenses on a per-processor basis, including SQL Server and BizTalk Server, will not see increased licensing fees. Microsoft's large enterprise symmetric multiprocessing license pricing will not change.

After years of promoting chip clock speed as the holy grail of processor superiority, Intel is shifting to dual-core chips and features sets as the mantra. This affords continued processor performance increases with fewer issues associated with heat and power consumption, and higher manufacturing and engineering costs. Intel is not alone in its dual-core fervor; both IBM and Sun Microsystems have already begun shipping dual-core processors for their UNIX systems, while AMD is competing feverishly with Intel for the lead in the dual-core x86 space. AMD demonstrated early implementations of its dual-core Opteron at the end of August, and IBM has started shipping its first server designed to support the AMD dual-core processors. Intel demonstrated a prototype of its dual-core Pentium chip at the September Intel Developer Form and the company indicated it has plans to release its first dual-core processor in 2005. By focusing on new chip features and functionality such as hardware virtualization, security, 64-bit extensions, and management capabilities, Intel will likely continue its quest for bigger, and better, but just not faster.

Software pricing and timely availability of features have always been critical for full exploitation of hardware innovations. Dual-core and increased x86 chip functionality will be no exception. Microsoft's has seized on dual core as a key marketing opportunity, by treating dual-core processors as a single CPU. This is, in effect, a price reduction for the future that is well timed and cloaked to leverage the dual-core trend. Microsoft faces intense competition in its server business and this change in licensing policy will undoubtedly help make Microsoft server products more attractive in the future. But this may beg the dual-core processor software pricing question and create market confusion and ambiguity. Intel, AMD, and SUN consider a dual-core processor as one processor, but IBM considers it as two processors, at least with respect to software licensing. ISVs are conflicted as well:

Oracle treats dual core as two processors while Red Hat considers it to be one license. It remains to be seen which approach will win market acceptance but it does illustrate the need for a change in how software is ultimately licensed. If Sun and Microsoft prevail, it is likely that others will line up behind single-license pricing for dual-and-multi-core processors. This would be a win for customers as they will derive more value from their software purchases at the same price. For ISVs, the win is less clear, unless the basic model for licensing changes. But all the licensing issues aside, it is important that software vendors posthaste capitalize on new hardware virtualization features, security capabilities, and ease of management functionality. By delivering this new value to their customers, vendors will be able to collect license revenue that otherwise would just sit on the table. More importantly, ISVs can reassure their customers that the value vendors ultimately deliver remains of paramount importance both to the customer and the vendor.

Let's Not Forget SMB Needs

By Jim Balderston

IBM has announced a new set of offerings designed to help enterprises comply with an increasingly complex set of regulatory requirements relating to data retention, storage management, and security. The largest single product announcement was the 2005 availability of the Solution for Compliance in a Regulated Environment (SCORE), which is designed for biomedical, pharmaceutical, and medical instrumentation firms to maintain record keeping in R&D, sales, manufacturing, and marketing as required by international national and state regulations. The company also announced other offerings within its Risk and Compliance Framework, which allow companies to determine what requirements need to be filled concerning regulations such as Basel II as well as storage and security offerings and enhancements.

There is no doubt that the coming years will require ever more specific record keeping from a host of industry, especially as the full extent of corporate fraud committed in the late 1990s is made clear in a series of forthcoming legal proceedings. Enterprises of all sizes are going to have to maintain a broad variety of records for extended periods of time in the event that regulators decide such documents are germane to a particular investigation. Not only do such requirements help investigators after the fact, but we believe that such record requirements also have a preventative effect as forcing companies to keep more granular records will act as a deterrent to future wrongdoing. The possibility of creating a smoking gun memo will act as negative reinforcement for all but the most unscrupulous of operators.

But what struck most about these announcements was the complete lack of discussion of how such offerings are relevant to SMB community. Given the fact that most mid-tier enterprise customer lists are made largely of large enterprises and that these larger entities have begun shifting the cost of inventory maintenance downmarket, the record-keeping requirements for mid-tiers is going to come under many if not all of the regulations for larger enterprises. When one considers that many if not most of these mid-tier IT footprints are increasingly becoming intertwined with their larger customers' IT infrastructure, the conclusion that these regulations will apply is even more forgone. While we are pretty sure that IBM will make these offerings — in one form or another — available to SMBs at some point, perhaps even simultaneously with availability to larger enterprises, we think the company missed an opportunity to walk the walk when it comes to SMB needs regarding regulatory compliance. By taking advantage of such opportunities, IBM and other large-enterprise IT vendors can make their case to the SMB market with much more credibility and consistency.

No Rules, No Reliability

By Jim Balderston

FCC Chairman Michael Powell reiterated his position this week concerning a light-handed regulatory approach to the emerging Voice Over Internet Protocol (VOIP) market and said in a recent speech that he would bring forth proposals for rules concerning VOIP in the near future. Powell has called VOIP a "disruptive" technology and has argued that the regulation of VOIP should be handled strictly on a federal level without involving states and the various Public Utilities Commissions. Powell has said that allowing the sates to regulate VOIP, as they do

traditional landline and cellular service, would lead to a patchwork of regulations that would hamper the growth of the industry.

While there is no doubt that VOIP is making a mark in the telecommunications market, we wonder if the proposals Powell plans to bring forward will help or hinder the adoption of such technology as a replacement to traditional phone service. While VOIP executives reacted warmly to Powell's assertions that he wants the fledgling industry to have a chance to grow, will this in the end actually bring to the market a service that will be widely adopted?

We suspect not. By taking the states out of the regulatory process and instituting a light-handed federal regulatory schema, Powell may in fact be doing a long-term disservice to the emerging VOIP industry. While at first glance one would think little or no regulation would help advance the cause of VOIP adoption, a closer look paints very different picture. With little or no regulation, there is no doubt that VOIP will continue to grow in popularity, especially among people looking for significant cost savings. But an unregulated environment also means that standards of service and reliability will largely be up to the individual companies, who may or may not have the wherewithal (or inclination) to provide the quality of service that a more regulated environment would require. As such, we wonder just how many enterprises are willing to scrap their existing phone service to instead rely on a largely unregulated market that may have a substantial spread on the quality of service spectrum. Free markets may be hunky dory in concept. Markets that resemble free-for-alls are not.

IBM Revenue Continues to Grow Across the Board... Almost

By Clay Ryder

IBM has announced Q3 2004 financials showing income from operations of \$1.80 billion, up slightly over last year's \$1.79 billion. Without one-time charges related to claims against the company pension plan, the company's Q3 2004 income from operations would be \$2.00 billion, an increase of 12% over last year. Revenues were \$23.4 billion, up 9% annually, and up 1% quarter over quarter from the \$23.2 billion posted for Q2 2004. The company attributed its continued revenue growth to key initiatives such as Business Performance Transformation Services where revenue grew more than 45% year-to-date, and emerging market growth of more than 30% combined in Brazil, China, India, and Russia. In the Americas, Q3 operating revenues were \$10.1 billion, up 8% annually; EMEA revenues were \$7.3 billion, an increase of 8% over last year; and Asia-Pacific revenues grew an annualized 11% to \$5.3 billion. (Currency fluctuations in EMEA and Asia-Pacific had a positive effect on dollar denominated earnings.) OEM revenues increased 13% to \$726 million compared with the third quarter of 2003. Revenues continued to grow in all of IBM's five industry sectors during Q3 with particularly strong growth from the Communications sector and Public sector, as well as in sales to Small and Medium Businesses.

From this quarter's performance, we see Big Blue humming along just as would be expected for a titan of the industry; in fact even better than may be expected given the economic climate. The company reported growth in most all areas of its business and throughout all geographies on a dollar denominated basis, an anomaly in the IT market of present. The growth of services, OEM business, storage, software, and hardware was mostly double-digit and overall things seem to be going pretty well for Big Blue. However, there is one aspect of the hardware business that has caught our attention. Unlike its siblings big and small that saw strong growth in sales, iSeries revenues decreased significantly. Part of this was attributed to the changeover to POWER5, but given that the changeover did not appear to erode the pSeries growth, it begs the question: what is happening with iSeries?

We believe that in large part the decline in iSeries demonstrates how it is a victim of its own success. Customers who bought iSeries are fiercely loyal, business oriented, and may we say conservative (in a very nice way) about their IT investments. This includes not changing anything that is already working. This is in sharp contrast to the bulk of pSeries users who tend to be roll-your-own technology gurus. While this caricature may be a little simplistic, it does illustrate the differences in the historic markets for what is now unified product architecture. Although the iSeries user base is very loyal, it is a cautious one, not a leading-edge adopter of new technology. This exacerbates the model change phenomenon, where demand lags as customers wait for the new model to become available, since cautious users do not want to be the first ones to try a new solution. We believe IBM has made

considerable effort to reassure the current user base that the i5 is right at home with previous iSeries and AS/400 solutions. However, we are not convinced that IBM has taken full advantage of the release of POWER5 to cultivate new opportunities for the iSeries and drive the platform further in the marketplace. This is unfortunate, as the numerous state-of-the-art capabilities offered by POWER5 are in effect being realized only by pSeries customers, which is less than POWER5's market potential. We believe the message of infrastructure simplification is the right one, and the iSeries delivers considerable value in this regard not only to SMBs, but with the advent of the i5 595, to the data center as well. However, until old habits change and iSeries learns to look beyond its past success and fixation on its existing customer base to get serious about cultivating new markets, the solution is not going to experience significant growth in a marketplace that, ironically, is well positioned to receive the value that iSeries delivers.

EMC Posts Solid Growth Again

By Joyce Becknell

This week EMC announced its third quarter results with a fifth consecutive quarter of double-digit growth. Total consolidated revenue grew by 34% year on year, and net income for the quarter was up 37% from the previous year. The core revenue, which excludes Documentum, Legato, and VMware grew 19% compared to the third quarter of 2003. According to EMC, they have now met or exceeded financial goals for eight quarters. Within the business, EMC's software license revenue grew by 56% year on year, which includes the new companies as well as EMC's core business software, which also had double-digit growth. The CLARiiON, Centera, and NAS businesses all grew by over 50% according to company spokespeople, and VMware revenues grew over 200%. Finally, EMC's services revenues grew by 48%, due to the new acquisitions, core software maintenance revenue, and increased customer demand for information lifecycle management (ILM) needs.

EMC has posted numbers that look good from almost any vantage point, particularly in an era when many high-tech companies have struggled just to survive. Although EMC acknowledges that many of the faster growth areas such as services and software have risen due to acquisitions, they are quick to point out that the core business areas also remain strong. EMC has long been at the top of the storage business, mostly due to a combination of being first to market (Symmetrix and Centera are examples), having superior technology, and executing with strong sales and marketing. The prognosis for EMC is good, as it continues to have strong products, a solid roadmap for product development, and a firm grasp of the importance of software as the foundation of ILM's future. The company is well positioned to maintain its customer base and remain attractive to new customers.

At the same time, Sageza has noticed an occasional tendency on EMC's part to treat its competitor's offerings lightly. This has not been surprising as frequently EMC's competition had inferior technology or, worse yet, incompetent sales and marketing, or no clear articulation of a storage strategy. That however is changing. As an example, IBM's recent announcement of the DS6000 and DS8000 demonstrates that IBM now has leading-edge technology. IBM also led the announcement with a business-focused message rather than dwelling on speeds and feeds, demonstrating that IBM is taking storage seriously as a strategic part of its business. For now, EMC remains the king of the storage jungle, but it cannot afford to grow complacent. Enterprise storage as services is an evolving concept, and there is plenty of space for differentiation. Sageza expects the market has just begun to heat up and competition should be fierce. EMC will have to remain at its best as its competitors rise to accept its challenge for market dominance.