
Market Roundup

September 2, 2005

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Itanium Solution Alliance Seeks to Gather the Itanium Faithful?

By *Clay Ryder*

News reports have stated that a new Itanium processor focused industry alliance dubbed Itanium Solutions Alliance will be announced later this month. The reported goal of the alliance is to make it easier for customers to adopt systems based on Itanium. Reportedly, the alliance will sponsor porting events to assist developers, create porting centers where such work can take place, and develop repositories of Itanium-based hardware and software solutions with a vertical-specific eye towards customers' needs. Members of the alliance were reported to be Intel, HP, NEC, SGI, Unisys, Hitachi, Fujitsu, and Bull, as well as software vendors Microsoft, Novell, Oracle, Red Hat, SAP, and SAS.

While this announcement has not yet been made, we are heartened by the possibilities it offers, should it happen. Although Itanium has traveled a difficult path to fruition that has been marked by delays, performance issues, and the incredible success of the x86 family of processors, the reality is that Itanium is here and is seeking needs that the once-hoped-to-be Juggernaut can address. Should this alliance happen, we see it as an important step in driving Itanium beyond the rarified air of high-performance computing and into the broader marketplace. Given Itanium's incompatibility with the x86 instruction set, at least without use of cumbersome emulation, the platform's deployment rate has been stymied due to users' inability to easily redeploy their existing applications. The fact that notable software vendors are purportedly to be involved is a potentially game-changing event. There are potential benefits for all; granted, Intel and HP probably have the most to gain. Nonetheless, if Itanium is ever going to create substantial traction in the marketplace, the hardware itself will not be sufficient to make this happen. The ecosystem, which most importantly includes ISVs and other software vendors, must be on board. People are increasingly not buying technology, but rather solutions to business problems, which are embodied by the software packages being purchased, not the hardware on which they run.

This alliance would also appear to have borrowed from the playbook of another 64-bit processor vendor, namely IBM. Power.org was established to promote the Power architecture throughout existing markets as well as seeking to create new places where Power-based solutions could ultimately go. A key part of power.org is reaching out to vendors who might not already be dyed-in-the-blue Power supporters. This approach could be a great benefit to the Itanium alliance as well. As much as HP and Intel can talk about how Itanium is an industry-standard platform, it simply is not. As such, market cultivation is required and initiatives such as this alliance are well positioned to help. Hopefully the Itanium folks will look beyond simply enhancing Itanium sales in existing niches but rather take the opportunity to pick their collective wits to develop new areas in which the processor could be taken to grow the overall opportunity for Itanium beyond what conventional wisdom would dictate. While we believe this initiative would have been very nice to have a few years back, the axiom "better late than never" still holds true. We are heartened to hear the market chatter of this potential alliance and look forward to its announcement.

Microsoft Joins VoIP Fray

By *Jim Balderston*

Microsoft announced this week it has acquired Teleo, a VoIP technology and services provider for an undisclosed sum. Microsoft stated that the Teleo technology will be integrated into its MSN services, and will be offered at some future date alongside its MSN Messenger service. Teleo provides VoIP technology; it does not offer IM capability. Teleo had only run a pre-release version of its services, which allow people with PCs, mobile phones, and landlines to connect with each other over the Internet. The service has been shut down while Teleo evaluated feedback on the service and sought to upgrade its software. Microsoft and Teleo had an existing arrangement where Microsoft Office users could call using Teleo. Microsoft gave no date as to when the service would become available.

When Microsoft created MSN, there was a wide array of questions concerning the company and its future. Was Microsoft a software company? Or was it becoming an ISP, akin to AOL? We suspect similar questions may occur as a result of this acquisition, such as: is Microsoft becoming a VoIP vendor and therefore some sort of communications company? As we discuss this week the issues surrounding the situation at Skype, we suspect that such questions are largely irrelevant. VoIP is increasingly becoming a must-have, a feature that users demand and service providers like MSN must provide. No big secret here.

That said, it is interesting to note how much the Internet has forced companies such as Microsoft to extend their portfolios far beyond the original templates. Once a desktop OS and applications company, with the advent of the Internet Microsoft was forced to consider whether to merely hold its position or respond to changing conditions. In 1995, when Microsoft CEO Bill Gates declared that the company was “hardcore” about the Internet, it represented not so much a decision made internally to embrace the new realities of connectivity, but a decision that was forced on the company by external realities. For Microsoft, it was an “adapt or die” moment. Such moments keep coming, although not many are as momentous as that 1995 decision. In buying Teleo, Microsoft is acknowledging that it must stay current with competitors like AOL, Yahoo!, Google, and Skype as they drive the latest form of communications between hyper-connected users. If that means Microsoft is going to become a little more like a telephone service provider, so be it.

Microsoft Goes Hollywood

By *Susan Dietz*

Microsoft's latest desktop OS, code-named Vista, has won the approval of Hollywood movies studios due to the significant anti-piracy technologies incorporated into the OS. Microsoft has worked with Hollywood studios to provide protection to copyrighted material by walling off video and audio functions from users and outside programmers. The safeguards even go so far as to shut off a computer's connections to some monitors and televisions, if those monitors and televisions are not also equipped with anti-piracy software.

Hollywood writes screenplays, not code. As such, it needs help from software and hardware vendors to try to protect its copyrighted material. Simply relying on largely ineffective legislation to protect its product is not going to cut it, no matter how many lawyers Hollywood puts on the case. What Hollywood has not figured out to date is how to capitalize on new distribution models that may force the industry to restructure and redefine pricing models. In essence, the challenges facing the recording industry are also those of the movie industry. Simply trying to force an old model down the throats of consumers wallowing in a sea of entertainment options not even envisioned a decade ago is not going to cut it any more.

Microsoft hopes that its apparent dedication to Hollywood and protecting video content will help earn it a place in the home as a digital media center. Microsoft has long wanted to move into the living room, with promises of a central platform for managing storing, playing, and recording digital content in all its (legal) forms. Such an idea has appeal, but we suspect that Microsoft is going to have to find a way to unseat incumbent providers like cable or satellite vendors, a task that may take more than anti-piracy features to accomplish. As it is now, cable boxes and Tivo-like recording devices offer nearly all the services a consumer could want, with none of the headaches

associated with operating and maintaining a PC. Set-top boxes are essentially simple, firmware-based computers controlled from central offices that can invisibly download upgrades or patches to the user's system. Furthermore, cable companies are very quick to simply replace set-top boxes when they malfunction, a service that we have yet to learn of in the PC industry. While at some point down the road the Windows Media Center may reach a level of reliability that makes its additional features worthwhile to consumers, we suspect that without the built-in, no-muss/no-fuss nature of cable and satellite boxes, Windows Media Center will have to wait before it dominates the end user's living room.

Skype Not for Sale?

By Jim Balderston

News reports indicate that Skype Technologies has said definitively the company is not for sale after news reports indicated that the company had hired investment bank Morgan Stanley and Co. to explore its options, including the possibility of an IPO. Skype provides VoIP services along with instant messaging. Its computer-to-computer VoIP service is free worldwide, and for additional fees Skype users can call landline telephones. Skype claims 51 million users worldwide, and at any given time more than 3 million users are on the system, on average. Skype is the latest VoIP company to have IPO/acquisition rumors associated with it; Vonage recently declined to comment on rumors that the company was planning an IPO itself. Last week, Google announced it will be offering a VoIP/IM service as well.

It is getting crowded in the VoIP/IM pool with all of the new entries and established incumbents like MSN, Yahoo!, and AOL, the largest provider of IM services. Each player is attempting to grow its subscriber lists as large as possible before the inevitable shakeout occurs. While vendors are using different business models to build out their services and subscriber bases, essentially the end-user experience is largely similar, with inexpensive or free calling over the Internet to fellow subscribers. When one considers that VoIP and IM are increasingly an intricate part of people's daily lives, it is safe to assume that the use of such services is no longer a differentiator but a must-have for services and consumers alike.

Given that reality, we suspect that the accretion of such vendors is quickly approaching. The market forces at work are irresistible; we are seeing a replay of similar consolidations that have happened in many industries in the past and in the IT industry recently. It was not all that long ago that offering a TCP/IP stack as a product was a viable business. No more. While we believe that the consolidation of VoIP is inevitable, we take note of the fact that at least two VoIP vendors have made denials or no comments concerning their plans. IPOs could be in the works for both Vonage and Skype, or both companies could be positioning themselves to prospective suitors. A company that raises two or three hundred million dollars in an IPO is at least that much more expensive to acquire than one that does not go through the process and is acquired prior to going public. By allowing rumors to float about possible IPOs, these companies are essentially signaling that they potentially are about to become much more expensive dates, as it were. With rumors, denials, or no-comments daily fare, we suspect that checkbooks are being scrutinized and strategic plans revised as VoIP begins the long trek into the vast maw of commodity desktop functionality.