Market Roundup

September 30, 2005

Small Blue? IBM Moves Further Downmarket

By Jim Balderston

IBM has announced a new set of entry-level Intel-based servers for the lower end of the SMB spectrum. The newest entry is the x100, part of the company's ongoing Express portfolio of products for the SMB market. The x100 is designed for businesses with up to fifty employees, and is available with a single Celeron chip ($499) or with a dual-core Pentium 4 configuration ($999). The company also updated the x206 and the rack-mountable x306. The new versions (x206m and x306m) now include hot-swappable power supplies and an integrated management controller as well as additional hard drives for the x206m. The x206m starts at $679 and can be purchased with a dual core and 1GB of memory for $1,700. The x306m starts at $1,099 and a dual-core version will be priced at $1,759. IBM said the x100 products would be sold only through its Web site and partners. The x206m and x306m will be sold through partners as well as IBM's direct sales force.

IBM has made concerted efforts to reach into the SMB market, most notably through the company's ever-growing Express portfolio of products designed and priced for the SMB market. To date — and, we would argue, for good reason — IBM has focused energies on the upper portion of the SMB scale, mostly targeting the "M" portion of the SMB community. These customers are increasingly seeking IT that that allows them to match up well and participate in the extended IT networks of their larger customers, most of which are large enterprises.

With the introduction of these absurdly low-priced Intel-based offerings, IBM has clearly decided to reach even further down the market. We say "absurdly priced" because there are laptops still being sold for more money than these servers, even at their most powerful configurations. We also note that IBM is moving the x100 solely through partners and directly on its Web site, a decision that will allow many members of the "S" contingent of SMBs to continue existing relationships with trusted local systems integrators and SMB-specific IT vendors. This decision mirrors one made by IBM to expand and enhance its partner and ISV ecosystem to ensure that the M part of the SMB market could continue to use their trusted IT vendors to sell and service IBM hardware and software. Given the fact that IT minimum requirements are migrating down the food chain from large enterprises, IBM's efforts to reach the smallest companies with low-priced hardware would seem to us to be a very good door opener. As IT adoption trends continue, we will see even the "S" segment of the SMB market demand more and more sophisticated IT tools to conduct their business with other elements of the market value chain. Low-priced servers sold through partners is a very appealing introduction to IBM's technology portfolio, and one we believe could bring significant numbers of small SMBs into IBM's long-term fold.

Beta vs. VHS Revisited?

By Clay Ryder

It has been reported that Intel and Microsoft have joined forces behind the HD DVD standard for the next generation of DVDs. This brings the two computing juggernauts in line with the Toshiba-led coalition of content providers including HBO, NEC, New Line Cinema, Paramount, Sanyo, Toshiba, Universal Studios, and Warner Home Video. This is in direct opposition to two other PC juggernauts, Dell and HP, as well as Apple, Disney, Electronic Arts, Panasonic, Samsung, Sharp, Sun, 20th Century Fox, and Vivendi Universal as well as Sony and Phillips (the original collaborators of the now quaint CD). In one attempt to avoid a complete schism in the marketplace, Samsung has already announced that it would ship a HD DVD and BlueRay compatible reader if the two sides cannot come to a common ground. HD DVDs contain either 15GB or 30GB of storage, whereas BlueRay offers 25GB or 50GB of capacity. Commercially pressed DVDs such as those used for movies have 9.4GB of capacity with common-user burnable computer CDs holding 4.7GB.

Competition and innovation are wonderful things, but at times, overlooking one's investment in innovation excellence in favor of the broader marketplace good can prove difficult. This is in part what forced us to endure

years of dual videotape hell, almost caused a rift in current consumer burnable DVDs (+R –R +RW –RW), and may hold back the next generation of small form factor optical storage. While each side is predictably arguing their technical superiority, if the market is confused or encumbered, adoption will be slow and all will ultimately pay a price. Additionally, the issue of backwards compatibility cannot be overlooked. DVD readers can also read CDs, and in our rather humble opinion the next generation must do the same. This is one of the advantages asserted by the HD DVD camp. Nevertheless, at the same time, the shift to digital television and HDTV will only drive the need for capacity on discs since storing an hour of NTSC/PAL/SECAM video takes significantly less space than any ATSC or other higher definition format.

It is also notable that even sectors are not completely one of the standards, as HD DVD has many content providers lined up, but BlueRay has about as many of their direct competitors. The same appears to hold true for the PC manufacturers as well. This level of bifurcation was not evident even in the early Beta vs. VHS wars, where most production houses originally issued titles in both formats. However, there may be an underlying issue at play. Microsoft and Intel in particular would love people to buy media centers and base their home entertainment systems on this technological platform whose implementation is heavily dependent upon software, processor power, and hard drives. Consumer electronics companies and many production houses are focused on selling hardware, or software (movies and music) in the form of hardware, with scant concern for software or end user manipulation of content. These folks would like to restrict moving or copying content from a DVD to another device, whereas Microsoft insists on the portability of movies on to a hard drive, most likely one in a media center. Microsoft and Intel would also like to sell software and hardware upgrades that allow people to edit and produce their own digital content, whereas movie distributors may see this simply as a smokescreen for copyright infringement and piracy. While in our mind both sides have valid arguments as to their superiority and flexibility of their solutions, they simply must agree to come together and present a unified front to the marketplace. If they do not, the cost and opportunities lost to the industry will be substantial, and set back this technological advancement by several years.

Looking Forward: The Threats to Come

By Jim Balderston

Symantec has released its biannual Security Threat Report and noted that during the first half of the year the company documented 1,862 new vulnerabilities, the highest number ever recorded by the company in a similar period. The report noted that nearly all these vulnerabilities were either moderate or severe in nature and that nearly 60% involved Web applications, an increase of 59% over the previous reporting period and more than double the amount recorded a year ago. The company also noted that adware and spyware continue to propagate, as well a host of new Win32 viruses. The company noted that 61% of all email was spam, and almost two-thirds of all spam originated in the United States. Looking forward, the report noted that wireless networks would emerge as a new target zone for hackers and that VoIP would become a source of new infections and attacks.

Based on our experience, there seem to be few surprises in this report, as all the afflictions noted have been very apparent to even the most casual of users. The Symantec report does provide interesting trend lines, where the increase in online vandalism or crime seems to be growing each year. Again, not particularly surprising, but confirmation of something many have suspected all along.

Looking forward, it is interesting to note that VoIP and wireless networking are going to become vector zones for new or recycled threats or mere annoyances. As VoIP gains further penetration into the marketplace, one can imagine a whole new wave of things like unsolicited voice mail, live voices pitching the Nigerian Banking Scam, and various infections and malware being spread rapidly as users call or IM across the network. Identity theft may also play a role here, as phone IDs are snatched and used for various forms of mischief. Users will need to be educated on the potential for these attacks and for online fraud as more legitimate enterprises move onto VoIP networks and as users themselves make the technology more central to their lives. We suspect there will be a completely new — but familiar — learning curve for those embracing VoIP and its related technologies. Based on Symantec's data, we suspect a large number of people may succumb to a new wave of scams and afterwards slap their collective foreheads and say something like, "Gosh darn it, I knew that sounded familiar."

Reduce, Reuse, Recycle

By Susan Dietz

News reports have been quoting a recently released Gartner study that stated one in every twelve computers used worldwide is a secondhand PC. Used computers come mostly from the U.S., Japan, and Western Europe and go mostly to Eastern Europe, the Middle East, Latin America, Africa, and Asia Pacific. It was estimated that for every two new PCs built and sold in a mature market, one used PC would be shipped to a developing market. Better computer performance and longer system life are among the reasons buying recycled computers is becoming more attractive.

Today's computers are powerhouses whose potential is mostly running idle while their users often focus on relatively pedestrian tasks such as email, Web surfing, and word processing. For these tasks, a state-of-the-art PC will have plenty of juice to run for years after a unit's original purchaser has upgraded if they follow a pretty standard three-year upgrade curve. It could potentially take quite a while for today's computer to become obsolete in a developing market that is not fixated on high-end applications. Thus, one person's used PC could be someone else's "certified pre-owned" windfall, and the market reflects that people are starting to recognize this fact. Opponents are quick to note that sending used PCs to developing countries that don't have the facilities for proper disposal simply compounds the problem of environmental pollution and health hazards for the population. However, as we have stated before, mature markets are already shipping their toxic waste, including used computers, to these countries. In our opinion, a citizen in a developing market making use of a computer instead of throwing it into a landfill is a vast improvement on the current system.

Recycling has been touted for decades as a way to reduce pollution, and repurposing PCs goes a long way towards that goal with a two-pronged approach. First, it keeps the used PC out of a landfill, at least for a few more years. Second, it keeps a new PC with its own toxic set from being built. With the EU's anti-toxic-tech legislation to become active soon, we suspect that repurposing PCs will become more popular with manufacturers while at the same time becoming a cost-effective way not only for individual citizens but for schools, public utilities, hospitals, and others in poorer countries to reap the benefits of modern technology.

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