
Market Roundup

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Breaking Up is Hard to Do

By Jim Balderston

SBC has announced that it will acquire AT&T for approximately \$16 billion, or AT&T market capitalization. SBC said the newly merged company would shed approximately 13,000 jobs due to redundancies. SBC executives reportedly have been eyeing the AT&T purchase for a number of years, and the acquisition is the latest in a string of purchases that have grown SBC to a company with 60 million customers in thirteen states, offering both commercial and consumer communication services. In other telecom news, Qwest is in ongoing discussion to purchase MCI for approximately \$6.3 billion. The acquisition talks are at an advanced stage, according to reports. It is unclear if other bidders, such as Verizon, might join in attempting to acquire MCI.

Back when Ma Bell was broken into its constituent Baby Bells, most observers felt that the decentralization would force the companies to compete for customers but do so within geographic areas. Long distance would be AT&T's bailiwick and the Baby Bells would own the last mile. But history has shown that the market forces that created the AT&T monolith are not only still in effect but are present with even more power and urgency. The re-accretion of Ma Bell is driven by both historical and more recent forces. Not only are long distance rates falling, new competitors like cable companies and VoIP services are forcing the Baby Bells to grow themselves ever larger to remain competitive.

The SBC/AT&T deal not only gives SBC the ability to offer more services — both on the consumer and business side — it also allows SBC to touch markets in which it had few opportunities previously. Its increased size would further protect it in a market consisting largely of commodity offerings, allowing it to weather market storms more effectively. We suspect that the flurry of telecommunications giants will continue apace, and in a relatively short time one or two companies will stand astride over the domestic U.S. telecom market, perhaps even capturing markets overseas as well. As AT&T begins its final ride into the dustbin of history, it is interesting to note that the company that was once the largest enterprise in the world is not only being swallowed by an offspring, but for a paltry sum that is dwarfed by dozens of mergers taking place across the larger marketplace. While the original decision to break up AT&T may have been legally or financially sound, in retrospect it appears to be one that ignored the realities of market forces in the telecom industry, which simply state that bigger is always better.

EMC Does the Backup Dantz

By Jim Balderston

EMC announced this week it has released EMC Dantz Retrospect 7 for Windows backup and recovery, with updates to all four editions of the software: Multi-Server, Single Server, Small Business Server, and Disk-to-Disk. The products allow for scheduled backups of desktops and notebooks operating in heterogeneous environments. The new features of the products include new wizards, improved disk-to-disk-to-tape capabilities; synthetic full backups; automated data grooming to prevent exceeding disk capacity; Fibre Channel and iSCSI tape device support; support for Red Hat Linux, SUSE Linux, and Mac OS X; expanded Microsoft Exchange Server protection; and available 128-bit AES data encryption on backup media. The new offering is available immediately

with pricing for Multi Server starting at \$1,299, Single Server at \$699, Small Business Server at \$499, and Disk-to-Disk at \$299.

EMC continues its ongoing strategy to enhance revenues by layering on new services and capabilities to its storage product portfolio. The company has rightly recognized that merely selling storage hardware is a path to diminishing revenues and the curse of selling commodity products at razor-thin margins. EMC has instead taken a much more creative and viable path in providing the software and management tools that make those storage arrays do what they are supposed to with less pain for all involved. EMC has approached this strategy with both inhouse development and acquisitions like Dantz.

All of this effort to add functionality and features to its products is part of a larger strategy EMC continues to pursue in offering products and services that begin in the data center and move outward into the enterprise itself. Such a storage-centric view of the world should not come as a surprise to anyone, given EMC history. But we suspect some vendors are going to wake up and notice that EMC is making significant inroads to their markets. Companies like Symantec (which purchased backup and recovery vendor Veritas recently) may have their hands full competing against a storage vendor with EMC pedigree. From Symantec's point of view, backup and recovery are security concerns. From EMC's view, they are part of a larger fabric of storage needs and capabilities. While security of data is a central concern, managing it and automating as much of its management as possible remain large or larger concerns with most enterprises.

Eating Away at the Bottom

By Jim Balderston

Skype announced this week that it has released versions of its voice over IP (VoIP) software for the Mac and Linux operating systems. The company originally only offered its software and service for Windows users. The new offerings will allow Skype functionality for users of Mac OS X v10.3 or newer, running on a G3, -4 or -5 processor, 128MB of memory, and 20MB of free hard disk space. The computer will also need an Internet connection and sound card, as well as speakers and a microphone. Skype offers free calling to other Skype users and low-cost VoIP calls to standard telephones. Skype claims to have provided nearly 5 billion minutes of telephone calls to date.

As the reliability and quality of VoIP continues to improve, many consumers are taking advantage of the opportunity to make calls at much lower rates than what is available from traditional phone service providers. These cost savings are particularly notable in many non-U.S. countries where phone rates remain notably higher than in the U.S. Even with long distance charges falling monthly across the industry, Skype is offering enough savings to entice a continuing stream of new customers.

While mergers and getting bigger define the strategy for larger, traditional telecom giants, Skype and other VoIP companies are beginning to apply price pressure from the bottom up on these larger entities. The Baby Bells' strategy of growing themselves large enough to survive against other Baby Bells works only in the context of assuming Baby Bell and perhaps cable companies will be the only competitive forces to be reckoned with. In such a world view, size does matter, but it also makes such entities vulnerable to companies like Skype and Vonage, who can offer services at a fraction of the cost of the Baby Bells simply due to astronomically lower overhead. While we do not believe the Skypes and Vonages of the world will bring down the telecom behemoths any day soon, it is interesting to consider the power of VoIP vendors when combined with other players in the marketplace. A combination of VoIP offerings and cable services could be a much larger concern to the POTS-based telecoms than they are ready to admit. The Internet revolution continues apace, more drastic and less noticed each and every passing day.

Sun Ties Future to Grid at Quarterly Product Launch Event

By Rob Kidd

Sun Microsystems, at its quarterly Network Computing launch, surprisingly did not announce new hardware; rather, it bolstered emphasis on its grid computing vision and initiative, adding enhancements to the initial 2004 grid offering. Sun has been refining utility computing for the last several years and last Fall the company

announced plans to create data centers around the world that would allow customers to access and pay for computing capacity on a per-use basis, at \$1 per CPU usage hour. Sun has now added storage to the original grid offering, initially pricing it at \$1 per gigabyte per month. Sun further plans to expand the offering to include applications, development, and support services. Sun's objective is to provide grid computing power to corporations, academic institutions, and government agencies, for project-specific data processing. Sun has started building new "Grid Centers" that supply the servers, storage systems, and other infrastructure to grid customers. The first centers will be located in Virginia, Texas, New Jersey, Canada, England, and Scotland, close to initial Sun Grid customers in the financial services and oil and gas sectors. Sun may also add centers in Asia and other geographies as international demand develops. Retail access to the grid will be available by Summer 2005.

Sun, over its 24-year history, has shown great ingenuity in repeatedly reinventing itself, while retaining its initial "network is the computer" vision and focus. Sun is hoping that grid computing will prove to be the next company reinvention wave — following earlier workstation, application server, and Java Web services successes — and is counting on grid to bring a return of growth and prosperity. Sun is positioning itself as the comprehensive, low-cost grid solution provider, versus other grid vendors such as IBM and Dell. To help establish this position the company is offering "an infinite right to use" of its Java Enterprise System (JES) Suite — a set of applications and system management products — for a price of \$50 per employee per year. This places the company grid offering in a strong defensible position versus competitors. Dell, for instance, is not in a position to offer as comprehensive a grid solution as Sun, and IBM will find it difficult to offer a grid solution at as low a cost, and with as few strings attached. In the end, Sun's grid offering may well find its greatest competition from open source grid initiatives, such as the recently announced open source grid Globus Consortium.

Sun's traditional financial services, brokerage, oil and gas, and technical computing installed base may well find the Sun grid value proposition attractive. Such a solution would augment cyclical capacity demand and incremental computing resources requirements, with a demand-driven, pay-as-you-go, no-strings-attached grid resource. This also may prove to be an incubator for new Sun hardware sales to non-Sun customers, with customers beginning as Sun grid users and evolving to a position where Sun technology and equipment have a place in their datacenters. Sun, by virtue of being a hardware manufacture and software provider, is in good position to profitably offer such low-cost grid services, and stands a good chance of winning favor with companies using Solaris and Linux x86 platforms.