

Under the Buzz

Commentary on Business Strategy for Tech Company Executives

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Under the Buzz is an email "viewsletter" published by Philip Lay, managing director at TCG Advisors, a Silicon Valley-based firm that helps executive teams to deal with perplexing strategic, organizational, and operational issues. Now entering its 11th year, this journal is published periodically and delivered free to subscribers via email on an opt-in basis. It is also posted on TCG Advisors' website, <http://www.tcg-advisors.com/Library/utb/utb.htm>, where back issues are also available.

Global Systems Companies - Changing of the Guard

Among the recent moves including product announcements (for example, Cisco announcing servers a year ago and, more recently, its entry into the data center business), alliances (Cisco joining up with EMC and VMware, HP aligning with Microsoft, etc.), and acquisitions (in particular, Oracle buying Sun), I wonder how many readers have noted what I believe is one of the real stories here - i.e., the reconfigured ranking of global systems companies that serve as critical IT systems+service partners to enterprise and government organizations. The net effect of this new ranking is that enterprise and government CIOs and line-of-business executives now have a somewhat different elite group of vendors to choose from as their major IT systems "partner".

After several decades of being *the* global systems company, rivaled only by HP (with Microsoft and Dell a distant third because of the limitations of their businesses and volume operations model), IBM now faces a new competitive playing field. It's difficult at this point to tell for sure which company will assume the second spot, but my prediction is that Oracle and Cisco will soon emerge as the most serious candidates for it. Naturally, both Oracle and Cisco, unencumbered as they are in the scope of their aspirations, believe they can eclipse IBM and become #1. We should all be grateful that these two companies are as ambitious as they are, each with their own visionary CEO, hungry to change the competitive dynamics at this apex of the high-tech industry. For some time now, there has been room for two, at most three, such one-stop-shops in the world of complex enterprise systems. So, what does this mean for HP, Dell, Microsoft, and the systems integration (SI) firms that have become relatively powerful players in the past two decades?

A brief look at the competitive evolution of major systems companies history makes for interesting reading. As IT began to become a globally important business in the seventies and eighties Burroughs, Univac, and DEC were IBM's main systems competitors, though each of them was always a distant second or third to IBM. When the audit/consulting firms such as Andersen Consulting (now Accenture) and Price Waterhouse (now part of IBM) decided to enter the fray in the nineties as ERP systems integrators alongside IT

outsourcers EDS and CSC, the profile of the major global systems partner took on a new face. In response to this new competitive dynamic provoked by the business process re-engineering and ERP trends, Lou Gerstner famously reinvented IBM as a services company, tilted initially towards outsourcing and, later, toward ERP and CRM systems integration services. As a result IBM maintained its position as the pre-eminent global partner to both government and enterprise organizations.

In the late nineties Sun briefly emerged as a leaner/meaner player for the #2 spot against HP in the section that favored hardware-based companies. For a number of reasons connected to its business model and its traditional techiness, HP had never had a real clue how to respond to the implicit - and at times very explicit - invitation from enterprise customers to become a kinder gentler IBM and occupy the number 2 slot. Sun's ascendance was of course due to its savvy play as "the Dot in .Com" company during the time of the great internet-crazed happiness, supported by its highly successful championing of Java, which rapidly became the dominant programming language of the early internet era. Then in the early noughties (as the Brits drily refer to the 2000s) HP bulked up with the acquisition of Compaq and, more recently EDS, to attempt - among other things - to finally eclipse IBM as the world's pre-eminent systems company. Among the group of global systems integration firms, Accenture continued to reign as #1, followed by the Deloittes and KPMGs, and increasingly by the lean 'n' mean Indian outsourcers, a fast-emerging group that included Infosys, Tata Consulting Services, Cognizant and Wipro. Today we have IBM, Oracle, and Cisco separating themselves from the herd for the new decade of the "tens".

Going forward, my best guess is that HP will fall out of top three global partners-to-be-counted-on but retain an important role as an arms dealer, partnering with other key players wherever possible. HP's future partners in this group may or may not include Cisco now that the latter has wounded what was a fairly solid alliance by becoming a direct competitor in computer systems, and it may not include Oracle either, since HP has long nurtured a mortal hatred for all things Sun. The truth as far as HP is concerned is that it always tends to favor its volume operations(*) businesses, which have subsidized its complex systems(*) BUs for many years; in summary, HP is and always has been very ambivalent about taking responsibility for developing and managing relationships with major enterprise and government organizations, and this is exemplified by its long-standing dependence on channel partners to provide sales, delivery, and support to these customers. Furthermore, HP whiffed badly when it missed out on acquiring PWC (which IBM later snapped up for 20% of the \$18bn that HP had offered), and ended up settling for EDS - in my view the wrong type of IT services provider to acquire, being in essence a cost-challenged systems outsourcer condemned to compete against the much leaner Indian SI firms referred to above.

As for other companies that might have aspired to the role and rewards of a global systems company, the last potential candidate among hardware-based systems companies is Dell. Despite the return of the founder, Michael Dell, to try to reinvent the company, my fear is that it is so weighed down by its outmoded and limited direct-marketing business model that it's difficult to see it playing a meaningful role in global systems leadership. The fact that it recently acquired "the other IT outsourcer formerly founded by Ross Perot" doesn't do much to help. Not only is Perot Systems equally vulnerable to competition from

the Indian SI contingent, but Dell also has to try to blend a complex systems business with its strong volume operations business culture.

Among other candidates, EMC managed to extend its period of relevance as a major systems player beyond the nineties despite its limited role in the "stack" (storage systems) by making one brilliant acquisition among several. VMware has become the gorilla of virtualization and may become a highly influential player in the coming Datacenter/Cloud Wars (see section below on "Orchestrating a New Datacenter Systems Stack").

SAP has rejected all opportunities to move beyond being a software company, continuing stubbornly to view its competitive playing field as consisting of one main enemy - Oracle. Today Oracle has left SAP in the dust as a major global player, and SAP faces a real challenge to return to growth and to remain as powerful and relevant as it was during the nineties and early 2000s. Nonetheless, although it appears to be fading fast and has suffered some leadership instability in the past couple of years, it may not be too late for SAP to regenerate some of its luster; after all, many of the world's largest organizations still run their businesses on SAP's ERP systems, and it does have an important growth catalyst in its analytics business. The danger is, however, that unless SAP finds a way to migrate its role from software product provider to end-to-end systems provider (as IBM has done, and now Cisco and Oracle are doing), or to software+service provider (usurping some of the economic power of its SI and outsourcing partners and thus rebalancing the power dynamics in these relationships), it will in my view continue to operate a fading franchise. There are opportunities in both of these areas, but it is unclear whether the new co-CEOs, Bill McDermott and Jim Snabe, or the sporadically active co-founder, Hasso Plattner, see their options in this light, or if they'll choose to pursue either of them.

Microsoft is a global player for large organizations, but only inasmuch as it provides critical support of desktop systems and negotiates enterprise-wide volume discounts that help organizations to achieve cost savings and some level of order in this area; Google might one day become an important partner to corporate and government organizations - more likely the latter, in light of its heft in consumer and small business mass markets for information access and advertising, as well as the political implications of privacy such as its current tussle with the Chinese government.

Orchestrating a New "Datacenter" Systems Stack

A recent analyst note by Kash Rangan of Bank of America / Merrill Lynch (Feb 10, 2010) describes the "tech stack" associated with what he and his colleagues refer to as the Datacenter Wars. In their assessment there are nine layers in the stack. I have modified their stack to include three layers that they had not explicitly called out (though they may be implicit within the nine layers they refer to).

The first important conclusion of their analysis was that (a) we need to look at the systems stack as a Datacenter stack from now on, in light of the emerging focus

on private and public cloud computing, and that (b) Oracle has the most comprehensive stack for the datacenter.

My modified version of the stack has the following layers starting at the bottom: 1) Datacenter Operations, 2) Networking, 3) Storage, 4) Server Hardware, 5) Virtualization, 6) Server Operating Software, 7) Systems Management Software, 8) Databases, 9) Middleware & Tools, 10) Collaboration & Communications, 11) Applications, and 12) Consulting & Services.

Based on a simplistic analysis of which of these layers each company can deliver on, here is my ranking:

1. **IBM** - 10 layers (all except Virtualization and Applications)
2. **Oracle** - 9 layers (all except Datacenter Ops, Networking, and Collaboration/Communications)
3. **Microsoft** - 8 layers (all except Datacenter Ops, Networking, and Storage Systems)
4. **Cisco/EMC/VMW** - 7 layers (all except Server Software, Databases, Middleware & Tools, Applications, and Consulting & Services)
5. **HP** - 7 layers (all except for Virtualization, Databases, Middleware & Tools, and Applications)

The remaining company among the six BofA/ML's assessment - SAP - fulfils just 4 of the criteria used in my expanded ranking (it lacks capabilities 1-8), Dell wasn't included in the survey, and EMC only got in due to its presumably tight alliance with Cisco. The correlation between this stack-focused ranking and the earlier discussion of critical attributes of major global systems players is far from 100%. For this and other reasons I stand by my earlier assertion that IBM, Oracle, and Cisco will become the dominant threesome as global IT systems partners for large corporate and governmental organizations worldwide. To my mind, Oracle is slightly more prepared to perform this role than Cisco because has much more to learn at the top of the stack vis-a-vis the delivery of operating systems and related software, applications, and consulting services. Furthermore, Oracle's sales approach, aggressive toward competitors and antagonistic towards customers as it can be, is generally more business-problem focused than Cisco's, which is still fundamentally a hardwarish, product-focused selling style. That said, it would be foolish to under-estimate the determination of Cisco to learn fast, forge new alliances and/or make the necessary acquisitions to shorten the time-to-competence.

() According to my firm's business architecture taxonomy, there are two predominant business architectures in high-tech and other industries. One type we call Volume Operations; the sweetspot target customer of these businesses is a consumer (or prosumer). The second type is the Complex Systems business, whose ideal target customer is a public or private enterprise organization. Our thesis is that all offers and processes of Volume Ops and Complex Systems organizations are designed differently, their operating metrics are distinct from one another, and mixing the two models generally leads to suboptimal outcomes.*

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Under the Buzz offers commentary on business and management issues facing technology companies. The goal is

to provide provocative insights into the latest events and thinking shaping this continually evolving sector. Under the Buzz also provides commentary on strategies for building sustainable competitive differentiation and maximizing growth and market valuation.

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