



# Summit Strategies White Paper

## IBM Puts the 'Net in Netfinity

*October 1999*

“IBM has been late to the increasingly critical service-provider (SP) game. This has been particularly true in the important, high-volume, Intel-based, Internet server market—where IBM’s Netfinity line has lagged behind competitors. But IBM doesn’t intend to stand on the sidelines anymore. Its innovative Netfinity road map, coupled with new comprehensive support programs, should help IBM put some points on the SP board.”

—Laurie McCabe

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**Summit  
Strategies  
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## IBM Puts the 'Net in Netfinity

IBM's corporate brand is close to synonymous with e-business. In fact, according to IBM, enterprise decision-makers associate IBM with the concept seven times more often than they do its closest competitor. But, despite its strong brand equity—and bullishness about all things Internet—IBM has been slow coming to market with a comprehensive, cross-brand server strategy and products for the increasingly critical service-provider (SP) market. This has been particularly true in the important, high-volume, Intel-based, Internet server market—where IBM's Netfinity line has lagged behind competitors.

But IBM doesn't intend to stand on the sidelines at the SP game. It is strengthening its position in the hot SP market with new Netfinity products and strategy announcements. On the product side, IBM has debuted its new Netfinity line-up with its rack-optimized Netfinity 4000R, which is ideal for the masses of small and midsize Internet service providers (ISPs) that place a premium on high-performance, rack-dense solutions. At the high end, IBM offers the 8500R, designed for SPs with high-growth back-end requirements, and it plans to introduce two additional Netfinity servers aimed at meeting the high availability and scalability needs of larger ISPs and application service providers (ASPs) today—and well into the future.

To reduce entry costs and total cost of ownership for more robust and reliable Internet server solutions, IBM is incorporating a wealth of technologies from its high-end servers and Microelectronics division into its industry-standard Netfinity line. More strategically, IBM intends to leverage many of these internally developed technologies out to the industry to create industry standards and to establish itself as an innovator in this market.

As important, IBM is backing up its strengthened Netfinity line with new SP services and support programs. For example, its Business Partner Program for ISPs, launched in April 1999, assists SP partners that want to add higher value services and move upstream in the SP market. The program provides SPs with technical and marketing training, co-marketing assistance, customer leads, financing and help in transitioning into applications hosting. IBM is

also introducing new initiatives designed to help SPs ramp up their businesses to provide higher-value-add, higher-margin, applications-hosting services.

Will these products and programs help IBM score in the fast-paced SP game? In this report, Summit Strategies examines the increasing importance of the SP market to server vendors. Then, we discuss IBM's innovative Netfinity product road map and the new SP technical and marketing support programs the company has developed to help it win share in the critical SP market. We'll conclude by assessing IBM's potential to woo SPs to its fold—and to give competitors, such as Compaq Computer and Sun Microsystems, a run for the money.

## Section 1

### **Drawing A Crowd—the Service-Provider Market Attracts Server-Vendor Attention**

In the past few years, over 7,000 ISPs have set up shop worldwide to cash in on the explosive demand for Internet access and Web-site hosting. This has helped to spur demand for Internet servers to a 40 percent annual growth rate—which is more than four times the rate of the overall server market. With growth in the Internet-access and Web-hosting market showing no signs of slowing down, and applications hosting just starting to gear up, these SPs have the potential to radically shift server buying power away from end-users and into the SP arena. (See Summit Strategies' Enterprise Market and Channel Strategies Advisory Service report, *The Promises and Pitfalls of Selling Servers to Service Providers*, May 1999, for an in-depth look at the emerging SP server market.)

But the SP market is both diffuse and demanding—making it a challenging one for server vendors to court. It consists of everything from small, local, mom-and-pop ISPs to large, global, full-service ASPs—a cross-section that Summit Strategies has categorized into nine sub-segments (see Figure 1).

While substantive differences exist among these sub-segments, Summit Strategies classifies SPs into three major categories to assess their server and operating-systems requirements—and lessen the confusion of marketing to the SP community:

1. ISPs (both large and small), which host Web sites and content, but not applications;
2. ASPs, which host business applications (and sometimes, but not necessarily, also Web sites); and
3. Wholesale service providers (WSPs), which are typically large ISPs or telcos that provide server farms and network connection infrastructure for ASPs that don't want to build and maintain their own data centers.

Figure 1

Service-Provider Infrastructure Requirements Matrix, by Provider

Summit Strategies classifies service providers in nine primary categories, each of which reflects different server and operating-system requirements and preferences.

	Internet Service Providers (ISPs)	Wholesale Service Providers (WSPs)	Application Service Providers (ASPs)	
Large globals	<ul style="list-style-type: none"> <li>America Online</li> <li>GTE Internetworking</li> </ul>	<ul style="list-style-type: none"> <li>AT&amp;T</li> <li>PSINet</li> </ul>	<ul style="list-style-type: none"> <li>US West</li> <li>Interliant</li> </ul>	Shared applications hosting
Midsized regionals	<ul style="list-style-type: none"> <li>The Internet Access Company (TIAC)</li> <li>Shore.Net</li> </ul>	<ul style="list-style-type: none"> <li>Qwest Communications</li> <li>USInternetworking</li> </ul>	<ul style="list-style-type: none"> <li>Corio</li> <li>USInternetworking</li> </ul>	Dedicated line-of-business applications hosting
Small locals	<ul style="list-style-type: none"> <li>Datablast</li> <li>Other World Computing Online</li> </ul>	<ul style="list-style-type: none"> <li>Exodus Communications</li> <li>Digex</li> </ul>	<ul style="list-style-type: none"> <li>MCI WorldCom</li> <li>BellSouth</li> </ul>	Dedicated infrastructure applications hosting

Source: Summit Strategies, Inc.

Several key considerations drive server purchase decisions across these segments: SPs in all three categories are typically experiencing high growth, many are constrained by limited floor space, and all need to maximize up-time and security to meet customers' increasingly rigorous demands. In addition, many are challenged by low profit margins on mainstay services (such as Internet access), which have quickly become commodities.

However, each class of SP also has unique needs (see Figure 2). In the highly competitive, limited-subscriber, relatively low-margin, small and midsize ISP market, priority concerns include low capital cost, quick time-to-revenue, and limited floor space. These ISPs are often operating on a shoestring budget, and want inexpensive, high-density servers that they can quickly acquire and deploy (to minimize excess capacity and inventory, and the associated costs of non-earning assets). Therefore, ISPs in this segment tend to favor small, low-cost, industry-standard, Intel-based, one-to-two processor rack servers that can be easily added to, swapped out and replaced.

Smaller ISPs are also looking for ways to create additional, higher-value (and higher-margin) revenue streams to offset the economies of scale and commoditization that larger ISPs are bringing to bear on the access market. Many ISPs are trying to move up the value chain by adding Web hosting and application serving to their offerings. They are embracing Intel-based Windows NT Servers to expedite this move. In fact, NT now accounts for

Figure 2

Service-Provider Server Requirements

Different classes of service providers—telcos, Internet service providers (ISPs) and application service providers (ASPs)—have different availability, operating-system and form-factor preferences.

	Telcos	Large ISPs	Small ISPs	ASPs
<b>Reliability</b>	high	high	mid	high
<b>Manageability</b>	high	high	low	mid
<b>Supportability</b>	high	high	mid	high
<b>Scalability</b>	high	high	mid	mid
<b>Security</b>	high	high	mid	high
<b>Capital Cost</b>	low	low	high	low
<b>Operational Cost</b>	high	high	mid-low	mid
<b>Time to Revenue</b>	low	mid	high	mid
<b>Processors</b>	two processors	two to four processors	one to four processors	four processors
<b>Operating System</b>	commercial Unix	commercial Unix	free Unix, NT	NT, commercial Unix
<b>Server Product Cycles</b>	long	short	medium	short

Source: Summit Strategies, Inc.

about 20 percent of the small/midsize ISP server market. (Sun and white-box Unix servers make up much of the rest, and free operating systems, such as Linux, are gaining in popularity.) These SPs are attracted to Intel-based servers because they are typically faster, cheaper and easier to deploy than Unix-based systems. And FrontPage, the free NT Server add-on, also reduces

the time it takes for them to develop Web pages—and to make money from these services.

While low capital costs and small, standard form factors are important issues for larger ISPs and WSPs, these SPs also place a high premium on “business-critical” criteria such as uptime, availability, scalability and performance. Consequently, many are choosing to move away from small one-and-two processor white boxes towards larger, more robust, two-and four-processor, branded servers. Because large ISPs and WSPs have more diverse and complex needs, server vendors have greater opportunity to differentiate SP server offerings. Here, advanced server capabilities and high performance are key selling points.

ASPs have even greater scalability, availability and performance requirements. Running applications—especially mission-critical, line-of-business applications (such as enterprise resource planning and sales force automation)—calls for more processing power, storage capacity and memory. ASPs, therefore, typically buy larger, more scalable (four-processor) servers with greater memory and storage. They also prefer high-profile server brands—from vendors that will guarantee better service and recourse, and help them gain credibility with customers. And, while Unix and Linux currently are the dominant platforms for SP Web-hosting environments, NT accounts for well over half of all ASP line-of-business servers, and is growing in use in this segment.

Of course, SP server requirements are morphing quickly. Summit Strategies expects that server consolidation will become an increasingly important concern among SPs, just as it has in large enterprise accounts. Though most SPs favor the “rack and stack” approach of horizontal server scaling today, a small percentage of ISPs and WSPs is already consolidating servers to keep management costs in check. For example, Deutsche Telekom is using IBM RS/6000s to cache U.S.-hosted Web pages to reduce access time for its customers. And America Online (AOL) and PSINet are partnering with Sun Microsystems and Hewlett-Packard (HP), respectively, on vertically scaled infrastructures.

Summit Strategies also anticipates that new “nothing-but-Net” solutions (see Summit Strategies’ October 1999 Small and Midsize Business Market and Channel Strategies Advisory Service report, *Nothing-but-Net: Application Service Developers’ Gold Rush*, for more on this new breed of solutions) will heighten scalability demands. These solutions have been designed and developed exclusively to be delivered as hosted services, and are typically written to take advantage of shared server economies of scale. As they take hold in the market, these ASPs will need servers that can quickly, easily and economically accommodate the shared-server model.



So IBM—as well as all other server vendors—is challenged not only to build the servers and programs that SPs need today, but also to create product and strategic road maps that will make it a preferred partner in the future.

## Section 2      **Teamwork—IBM’s Server-Brand Positioning for the SP Market**

IBM is late to the SP game, and must go up against entrenched competitors that captured dominant positions in the market early on—as well as vendors that have recently begun aggressive campaigns to gain SP market share.

In particular, Sun has a significant lead in the ISP market (its servers are used by about 75 percent of ISPs) and has been gaining in popularity in the ASP market. On the Intel side, Compaq claims that some 30 percent of ISPs use its servers in their data centers.

Meanwhile, HP intends to leverage its position as the top systems vendor in the traditional telco market (with more than \$2.7 billion in computer systems revenues earned in this market in 1998 and more than \$6 billion of its total revenue) to help them add SP services to their portfolios. In addition, HP recently launched a spate of aggressive, industry-leading financing programs for SPs (see Summit Strategies’ June 1999 Vendor Strategies Advisory Service report, *Can Hewlett-Packard Change the Internet’s Rules for Success?*, and Small and Midsize Business Market and Channel Strategies Advisory Service report, *Hewlett-Packard’s Commerce for the Millennium: Not Business As Usual*)—and has already scored several impressive wins as a result.

With competitors like this pounding down the court, IBM can’t play catch-up with a me-too game—it needs to raise the bar against the competition. As usual, IBM’s first challenge has been to get its own house in order—and rationalize positioning across its own server brands. Big Blue has begun to identify lead SP markets for each of its server lines, including:

- **RS/6000.** IBM’s RS/6000 brand features the S80 e-business server for Web-based enterprise solutions, the POWER3 departmental server for the scientific and technical community, the POWER3 node for business intelligence and server-consolidation solutions, and the new B50 “Pizazz,” which IBM targets at the ISP and ASP markets. The high-density B50 (up to 20 19” 2U B50s per rack) supports both Linux and AIX operating systems, giving SPs the ability to run both “freeware” Linux apps and more robust commercial solutions on AIX—which IBM positions as the leader in bullet-proof Unix operating systems. The B50 provides high performance for dedicated “appliance” solutions, such as Web hosting, firewall, caching, messaging, directory services or e-commerce servers. IBM claims that the B50, with its \$3,995 price tag, provides price and

performance leadership over Sun's Netra T1, which starts at \$4,995 and rises to over \$6,000 for a fully configured system with CD-ROM and additional memory.

- *Netfinity*. IBM's new Netfinity solutions provide SPs with a range of Intel-based solutions, from the groundbreaking, rack-dense 1U 4000R to eight-way capable 8500R back-room servers, which we describe in more detail in Section 3. IBM contends that its Netfinity road map offers both ISPs and ASPs the most scalable, rack-dense Intel-based SP server platform in the industry. It plans to incorporate many of its high-end "X-architecture" server technologies into upcoming Netfinity models to offer SPs high-end server capabilities at industry-standard server prices. IBM has also optimized Netfinity servers to run both Windows NT Server and Linux operating systems, providing SPs with more choice and flexibility in solutions.
- *AS/400*. IBM is focusing the AS/400 exclusively on the ASP market. It intends to position the AS/400, with its logical partitioning (LPAR) capabilities, as the ideal environment for ASPs that want to run highly scalable, Web-based solutions in a shared server environment. LPAR allows one AS/400 to be divided up into multiple OS/400 environments, allowing each environment to operate as if it were a secure, independent machine.
- *OS/390*. While IBM has not publicly disclosed its official role for the OS/390 in the SP market, the company does intend to sell the OS/390 as a hosting platform.

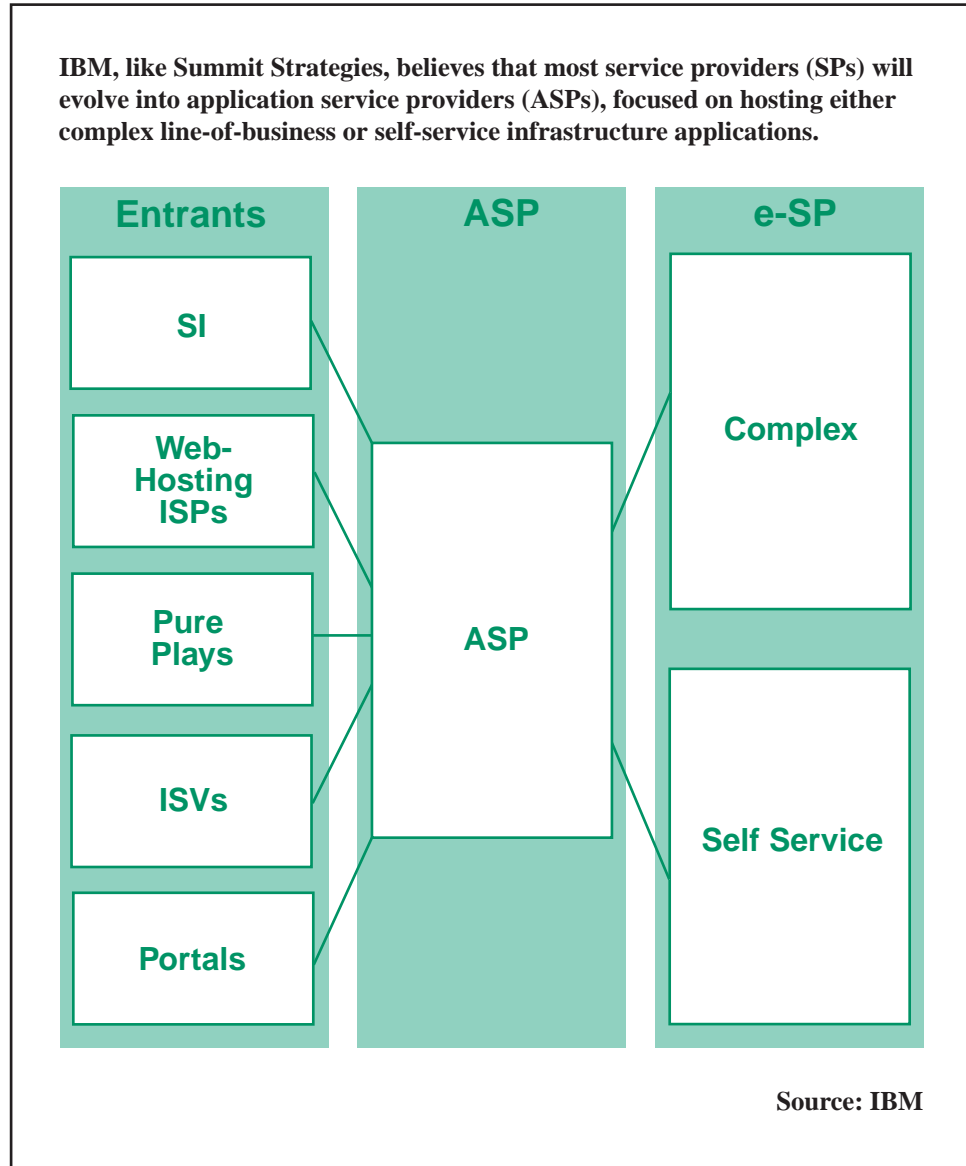
In addition, IBM is factoring its recent acquisition of Sequent Computer Systems into its ASP equation. Sequent's enhanced NUMACenter platform provides a pre-integrated framework for very large-scale Microsoft Windows NT Server applications in e-business and ASP environments. Some of its distinguishing features include heterogeneous Windows NT Server and Unix Storage Area Network (SAN) support, and an intelligent hosting feature for its Advanced Detection Availability Manager (ADAM). Configurations range from four processors and 18 gigabytes of storage to 64 processors and 80 terabytes of storage.

As shown in Figure 3, IBM (and Summit Strategies) expects that, over time, SPs will expand their services portfolio, and increasingly demand higher-performance, more scalable systems. But today, the sweet spot in the SP market is the hordes of small and midsize ISPs that demand low-cost, rack-dense Intel-based servers—due to the cost and form factor concerns discussed in Section 1. Because traditional client/server applications generally aren't ready to run in a shared server environment, many ASPs also need to use dedicated servers for each client company as well. Consequently, with most

of the SP market clamoring for low-cost, industry standard systems, Netfinity is best positioned to run with IBM's sales ball today.

Figure 3

### Service Providers Evolve Into ASPs



### Section 3

### IBM's New Netfinity Play in the Service-Provider Market

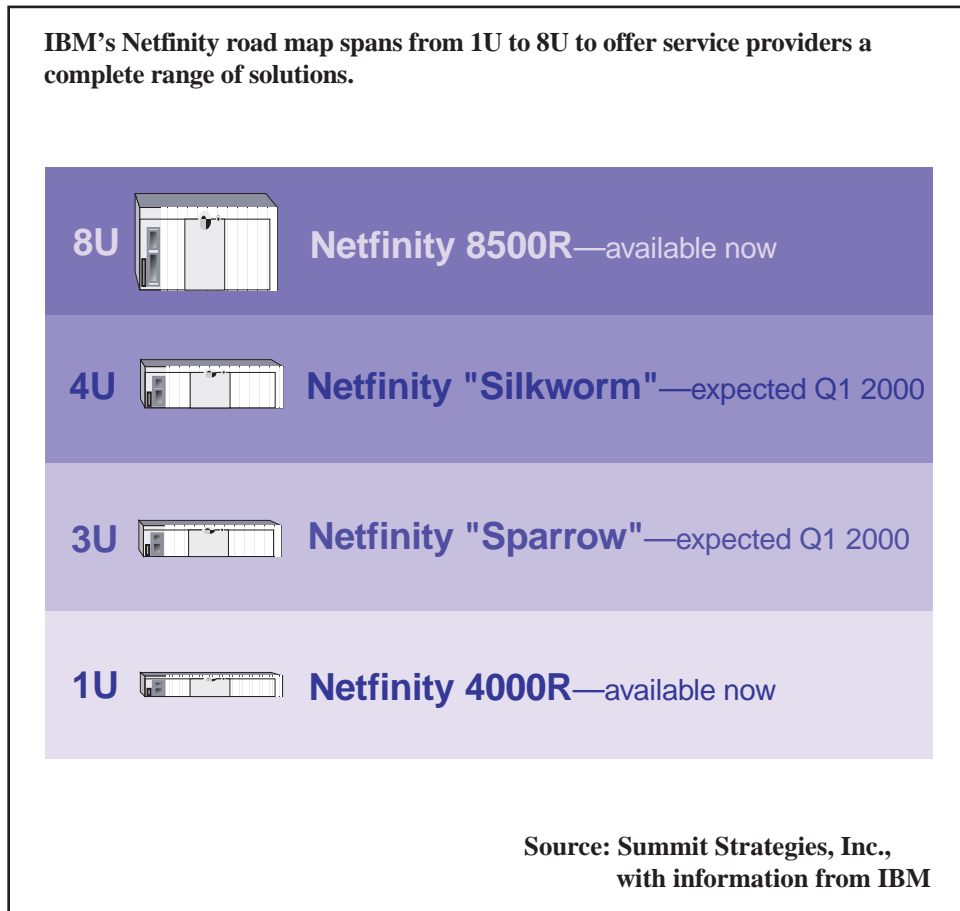
To move off the bench in this industry-standard game, however, IBM must provide clear and substantive value-add over competitive offerings—a tough task in a commodity business. Its plan is to integrate desirable technologies and features from other IBM server brands and divisions into the Netfinity line—and slam-dunk some attention-getting industry firsts. New Netfinity

systems feature X-architecture innovations that integrate high-end IBM “big iron” availability and performance features into low-cost, industry-standard servers.

By bringing technologies such as eight-node MSCS, Capacity Manager, SP Switch, Active Security, Chipkill Memory, Active PCI and ServerGuide to its Netfinity brand, IBM intends to gain a three-to-six month time-to-market edge on the competition. In addition, IBM plans to make many of its technologies available to the industry through third-party chipset manufacturers so that other vendors can incorporate them in their products—and IBM can lay claim as a leading innovator of industry-standard SP system technologies.

In its Netfinity line, IBM has focused on several areas of critical importance to SPs: rack-density, time-to-deploy, high availability, scalability, and optimizing for both Windows NT Server and Linux. As shown in Figure 4, IBM’s Netfinity road map spans from 1U to 8U—to offer SPs a complete range of solutions.

**Figure 4 IBM’s Netfinity Line-Up for Service Providers**



At the low end, IBM has scored a form-factor coup with the Netfinity 4000R “Intimidator,” which debuted in September. The 4000R is the first 1U (1.75” high) Intel-based system from a major server vendor. This rack-dense unit can fit up to 42 servers per rack and offers two-way Pentium III 500MHz/100MHz processor support for maximum computing power per square foot. At just under \$4,000, the 4000R provides real-estate constrained ISPs with a low-cost, plug-and-play solution for Web serving, caching and directory services. The 4000R software stack allows SPs to manage all the nodes together, and hot-replace nodes in the rack. It also offers an Ultra SCSI controller in PCI slot, Dual 10/100 MB Ethernet, and supports both Windows NT and Linux.

At the high end, IBM introduced the Netfinity 8500R in June, targeted at SPs with high-growth back-end requirements. IBM positions the 8500R as the perfect back-end server for large databases and Web serving—and as a partner for Netfinity application servers in an n-tier environment. The 8500R can expand to up to eight SMP Pentium III Xeon processors and 16GB of high-speed 100MHz ECC memory. Twelve 64-bit PCI adapter slots support high-speed solutions and options, and the system is optimized to support enterprise storage solutions, such as SANs implemented in a Fibre Channel or RAID environment.

Over the next few months, IBM will fill in the middle of the line, with two new Netfinity servers that draw on enterprise-class technology from other IBM divisions:

1. *Netfinity “Sparrow,”* a 3U, two-way node is expected to be available in Q1 2000, and priced in the range of \$3,000 to \$4,000. IBM is marketing Sparrow as a perfect high-availability node for applications hosting, Web farming/serving, as well as for the general business rack-optimized market. The company believes Sparrow is especially well suited for ASPs with high uptime requirements. As a standard feature, it includes a systems management service processor, which provides in-and out-of-band management, and for which competitors typically charge extra. This service-processor capability allows administrators to manage the system even if it goes down. Other features will include large memory support, hotswap hard files and leading-edge sub-systems.
2. *Netfinity “Silkworm”* is expected to launch in the first quarter of next year. This high-availability 4U, four-way infrastructure node is expected to ring in at the \$7,000 to \$14,000 range. Silkworm will fit the bill for the box in the back room, with revved-up computing power for database use and large Web sites. Adding to its high performance will be its Chipkill error correction memory, for 100 times more reliability than ECC memory. Other key features include large memory support, hotswap hard files and leading-edge sub-systems.

With this product road map, IBM has—for the first time—a Netfinity brand that stacks up well against competitors' offerings in the SP market. IBM's ability to leverage the deepest portfolio of R&D investments in the industry into Netfinity gives the company the potential to continue to one-up competitors as it rolls out new products.

## Section 4 IBM Scores Product Points Against Competitors

IBM hopes to use its new Netfinity line-up to block SP product shots from the usual suspects—Sun, Compaq and HP. For example, with its new 4000R, IBM believes that it holds the following advantages against these rivals:

- *Rack density and time-to-market.* IBM is the first Tier One vendor with a 1U Intel-based rack node, and it expects to have a three- to six-month lead over similar 1U offerings from other Tier One vendors. Sun has a 1U offering, but it is based on more costly UltraSparc processors (rather than Intel), and supports only the Solaris operating system. Compaq's closest offering is its 3U ProLiant 1850R, and HP's is its 2U NetServer LPr (for a point-for-point comparison of the 4000R with these offerings, see Figure 5);
- *Memory support.* The 4000R's 256MB to 2GB of memory support is twice that of competitive systems, which top out at 1GB. This greater memory is a key requirement for caching solutions. IBM also plans to offer a caching-enabling hardware and software bundle for the 4000R in the first half of 2000, which it claims will be competitively priced against Compaq's \$10,000 TaskSmart caching server;
- *Pricing.* The pricing for a fully configured system starts around \$3,999. This puts it at the same price point—or lower—than competitive solutions (with Compaq's ProLiant 1850R priced at \$3,183 and HP's NetServer LPr priced at \$3,556). The 4000R pricing is also 25 to 30 percent less than Sun's \$4,995 1U offering—and provides two to three times better rack density; and
- *Windows NT Server pre-load option.* For the first time, IBM will make the 4000R available with Windows NT pre-installed—cutting installation time and time-to-revenue significantly for SPs that want to run NT.

IBM plans to raise the competitive ante with its upcoming products as well:

- *Sparrow.* Compaq's popular 1850R server is also IBM's primary target with Sparrow. With an expected price tag of between \$3,000 and \$4,000, Sparrow offers customers higher-end technology at a compet-

Figure 5

4000R Competitive Comparison

IBM is the first Tier One vendor with a 1U Intel-based rack node. Sun has a 1U offering, but it is based on UltraSparc processors rather than Intel, and supports only Solaris. The closest offering for Compaq is its 3U 1850R, and for Hewlett-Packard (HP) is its 2U LPr.

Requirements	IBM 4000R	Sun Netra TI	Compaq Proliant 1850R	HP Netserver LPr
Form Factor	1Ux24"	1Ux19.5"	3Ux25"	2Ux28"
Maximum Rack Configuration	42 units	42 units	14 units	20 units
Processors	2-way Pentium III (PIII) 500MHz/512KB	2-Way UltraSparc-III 360-440MHz	2-Way PIII 500MHz/512KB	2-Way PIII 550MHz/512KB
DASD Interface	Wide Ultra SCSI	Ultra SCSI-3	Dual Wide Ultra SCSI-3	Ultra SCSI-2
Standard DASD Bays	2	2 hot-swap	4 hot-swap	2 hot-swap
Total/Available PCI Slots	2/1	2/1 (1 full length)	4/3	4/3
Memory	128MB/2GB	25MB/1GB	128MB/1GB	64MB/1GB
Non-Disk Bays	1 SL 5.25" bay	None	CD, floppy, 2 5.25" DLT tape support	CD, floppy
LAN	Dual 10/100mb down	Dual 10/100mb down	10/100mb PCI card	10/100mb PCI card
Power Supply	1x150W	1x250W	2x225W	1x220W
HotSwap DASD	No	2 standard	4 standard	2 standard
HotSwap PCI	No	No	No	No
HS/Redundant Fans	No	No	Yes	Yes
HS/Redundant Power	No	No	Yes	No
Systems Management	TBD	Solaris	Insight Manager	Integrated Remote Assistant
Operating System Support	NT, Linux	Solaris 2.6, Solaris 7	NT, Linux, Netware, SCO, OS/2, Solaris	NT, Linux, Netware, SCO, OS/2, Solaris
Target Price	\$3,500-\$4,000	\$4,995	\$3,183	\$3,556

Source: IBM

itive price (the 1850R is priced at about \$3,183). Sparrow also boasts superior usability features, such as front-accessible, redundant, hot-swap power supplies. Meanwhile, Sun and HP have no 3U offerings.

- *Silkworm*. IBM will put Silkworm up against Compaq's 4U ProLiant 6400R. While the 6400R comes standard with ECC-protected high-speed buffered EDO DIMM memory, and supports a maximum of 4GB, Silkworm is expected to support greater memory and SDRAM technology. Once again, Sun and HP don't have 4U offerings.

Sparrow, Silkworm and the Netfinity 8500R all support System Management Processor as a standard feature to provide SPs with a more manageable, integrated service environment.

## **Section 5 IBM's Service-Provider Program Rally**

To really boost its standing with SPs, however, IBM must go beyond product innovation and provide the marketing, technical and business support to help SPs profitably grow their businesses—and their profit margins. It must become a true partner—not just an arms merchant. To do this, IBM has designated SPs as a special class of partner, and is developing new programs tailored to their needs.

This is a new play for IBM, which, in the past, tended to ignore the startup SP market, focusing instead on its legacy large clients. But IBM began its SP push last spring with a couple of program initiatives. In April, IBM Global Industries created an ISP Business Unit, chartered to address the needs of the ISP market. (See Summit Strategies' July 1999 Industry Dynamics and Market Strategies Advisory Service report, *Execution as IBM's E-Business Vision*, for more on IBM's turnaround and challenges in the SP market.) This unit offers sales, marketing and solutions specifically for the SP market.

The first initiative of the ISP Business Unit is IBM's Business Partner Program for ISPs, for which ISPs can sign up on IBM's Web site. This program gives ISP partners:

- Early access to IBM's Internet research;
- Support to add higher value services and to move upstream in the SP market;
- Technical and marketing training;
- Co-marketing assistance; and
- Customer leads



IBM also offers ISPs assistance to add higher-value and higher-margin ASP services to their portfolios. These include programs such as StartNow, in which IBM will provide flexible financing options and host the server until the SP is ready to bring it in-house.

But this is just the first half of IBM's new SP game. It has come a long way in the six months since its April announcements. For example, at October's ISPCON, IBM unveiled a cross-brand, full-court SP press that includes new cooperative marketing programs to help SPs identify and partner with complementary ISVs and resellers. It also includes technical resources to assist them in developing and optimizing solutions across IBM's server brands. New initiatives include:

- *New partner solutions* that are optimized for its RS/6000 and Netfinity product offerings and programs. IBM will partner with ISVs to provide packaged access, Web, commerce and business applications specifically for SPs. Its partner list includes Inktomi, for high-performance caching applications; Resonate, for intelligent traffic management with Central Dispatch; Real Networks, for leading streaming media server; Lotus for groupware and collaboration; and, of course, IBM's own Net.Commerce and WebSphere applications.
- *Lotus ASP Solution Pack*. This will provide SPs with a ready-to-go environment to host, manage and build applications. It will include core applications, such as mail and collaboration, to get them up and hosting—and producing revenue—right away.
- *Packaged offerings that SPs can resell to small and midsize business customers as value-added services*. These include e-business Accelerator, for online e-business consulting; HomePage Creator, for Web site creation and services; and WebConnections, which provides small businesses with an on-premises thin server to facilitate communications, networking and hosting services.
- *Packaged services for SPs*. IBM will also provide SPs with new services to help them improve quality of service and boost competencies. These include services for performance management, capacity planning, continuity and business recovery, and Linux training.

IBM is also intensifying sales efforts by expanding its “feet on the street” SP sales force (which collaborates across IBM's server lines) to cover the largest 500 SPs worldwide, and will augment its existing telesales coverage for the rest of the burgeoning SP market.

Finally, IBM is leveraging Sequent's existing and fully operational @Ready Program for Netfinity and its other server brands. Sequent launched @Ready

(formerly known as eReady) in June 1999 to establish partnerships with ISVs and SPs to accelerate their delivery of hosted Internet applications. Now branded by IBM as “ASP Ready,” the program encompasses educational programs to help ISVs understand and capitalize on the ASP opportunity; tools to assess existing applications hosting “readiness”; and guidance on how to transition to a truly Web-centric hosted business and development model. As part of the program, IBM has established ASP Ready Centers, where it assists ISVs and SPs in designing and testing hosted delivery solutions. The program also provides links to IBM Hosting Business Partners to help take new solutions to market. In some cases, IBM will also provide joint marketing assistance to launch and establish solutions in the hosting market.

Though it’s been slow in going to the SP hoop, IBM intends to lead a fast break with these new, strengthened SP activities programs.

## Section 6 Competitive Momentum

Competitors, however, won’t be giving IBM any free throws. They intend to build on their existing momentum, and exert more pressure by accelerating their own SP initiatives.

- *Sun.* As noted, Sun has a huge presence in the high-end Unix SP market. It wants to retain and grow this position, but it is also moving into the low end of the SP market by adapting its low-end servers. The company hopes to establish itself as a partner to this large base of smaller, horizontal-scaling SPs and to help them move up into higher-level hosting—and Unix-based servers. To appeal to the SP market, Sun is offering pre-configured Netra servers and a version of Solaris customized for SP requirements. It is also providing SPs with a pre-assembled hosting stack that delivers the performance that portal-based computing requires. And, it is creating tailored education, consulting and support services for SPs, as well as developing marketing distribution and support programs for them. For example, its ServiceProvider.com program provides an online “service provider showroom,” SP competency centers, a market-development program, Rapid Response Teams and a consulting practice to help SPs plan, implement and manage their architectures. Sun provides lead referral from its customer-account teams (whose members are compensated for these efforts) to appropriate SP partners when it believes hosted solutions are best suited to customer needs. But, despite these strengths, Sun faces challenges in convincing SPs to abandon their traditional practice of horizontal scaling in favor of the vertical scaling that plays to Sun’s Unix strengths:

- *HP.* Like IBM, HP is a latecomer to the SP server game. HP is attempting to bypass the established basic-access and Web-presence server markets to win over new-generation SPs, such as leading-edge ASPs. Its Commerce for the Millennium program (see Summit Strategies' Small and Midsize Business Market and Channel Strategies Advisory Service report, *Hewlett-Packard's Commerce for the Millennium: Not Business as Usual*, June 1999) provides SP partners with pre-integrated, packaged, end-to-end, e-commerce solutions that they can deploy quickly and resell to small and midsize businesses. More important, HP assumes the upfront costs for deploying, supporting and co-marketing the solution at the SP site in return for a slice of the SP partner's subscription and transaction revenues. HP's innovative financing program should allow it to get on the short list with many SPs. However, to some, HP's measures seem like those of an Internet underdog that must resort to desperate giveaways to make a run in the market. In addition, some SPs will be resistant to sharing their future profits and/or being locked into partnership with HP. Finally, HP's success is dependent on HP Financing making the right investment choices—tough shots to call in this tumultuous market.
- *Compaq.* So far, Compaq has played the role of arms merchant in the SP server game. While it would like to move beyond this role, it has a long way to go to establish itself as a business partner to SPs. Some of its initiatives to play a more pivotal role include: referring customers to a select (10 to 15 currently) group of partners, and a compensation plan that rewards its sales force and channels with bonuses for SP references. But, at the same time that it tries to boost up SP programs, Compaq is faced with corporate downsizing and cost reduction pressures—putting it at a big disadvantage against competitors that are enjoying record revenues and profits.

## Section 7

### Will IBM Be a “Player” In the SP Game?

As discussed in Section 2 (and in Summit Strategies' Enterprise Market and Channel Strategies Advisory Service report, *The Promises and Pitfalls of Selling Servers to Service Providers*, May 1999), the SP game is a must-win for server vendors. As the SP market takes off, it has the potential to create one of the biggest shifts in buying power the server industry has ever seen.

In the small and midsize ISP market, servers are shaping up as a commodity purchase. Here, time-to-revenue and upfront costs drive buying decisions, and server vendors will find it increasingly difficult to provide enough differentiation to command loyalty and drive market share. They can compete in this market by offering the highest-performance, lowest-cost, smallest-form-factor, rack-ready, Intel-based boxes—but will be perpetually challenged to maintain a lead as competitors continually undercut each other on pricing and design.

Selling these small, access- and Web-site hosting SPs on servers and services to help them grow up into high-end, server-buying ASPs provides a better opportunity. However, many of these ISPs may not make it in the long run. Most of these companies are essentially undercapitalized network and server administrators—with little resources to move up the value-added solution chain—which will be squeezed out of current markets as the cost of basic access is pushed down.

Vendors' best chance for a larger, more sustainable payoff is to focus on the other eight SP categories as listed in Figure 1 (on page 3)—telcos, large ISPs, ASPs (large and small) and WSPs. In these segments, server purchasing requirements are based more on long-term cost-of-ownership considerations, and vendors can more easily differentiate with value-added features and services for availability, manageability and security.

While IBM's attempts to rationalize its server brands in the SP market still leave some overlap, the vendor has clearly emerged from its positioning work with a solid understanding of the different segments in the market, and their requirements. Both the RS/6000 and Netfinity lines are ready to go head-to-head against the prevailing leaders with highly competitive offerings.

With its new Netfinity road map, IBM is finally coming to the high-volume Intel-based SP server game ready to play. The low end of the SP market is by far the biggest segment today, and a market in which IBM absolutely must gain share. With its rack-optimized 4000R, it has met and raised the competition by responding to the most important requirements of this market—size and cost.

Meanwhile, on the high end, its strategy to migrate enterprise-class IBM server technologies down to the lower-cost, industry-standard Netfinity brand is a match for ASPs and large ISPs—whose demands for availability, scalability and performance are likely to grow exponentially as the market matures. IBM also has the opportunity to leverage Sequent's NUMACenter expertise into the Netfinity line, should it desire to do so.

With a solid product road map in place, IBM's biggest challenge is to support these offerings with attention-getting, robust programs that can help it to move from the sidelines into scoring position against its competitors—which have created much more buzz around their SP programs to date than IBM. While its ISP Business Unit and Business Partner Program for ISPs are a good start, IBM knows it needs to pick up the pace. Over the next few months, it plans to accelerate play to the next level with a series of new SP program initiatives, as discussed in Section 5.

While IBM is still ironing out the details of these initiatives, it certainly has the resources to provide SPs with tremendous cross-platform, open-standards

technical support. It also has the experience to help SPs design scalable, high-availability data centers, and can assist SPs in developing integrated billing, provisioning and service level agreement (SLA) competencies to aid them in running their businesses more productively and profitably. And IBM will also use the ASP Ready program to pick up its pace with SPs *and* ISVs.

Of course, IBM needs to *execute* well on the new SP program plays that it will roll out in the coming months. Netfinity is in scoring position—and now IBM must harness its vast technical and marketing assets through its planned SP initiatives to take its deserving Netfinity product line to the hoop.

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## Appendix

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