



EMC Changes the Rules (Again) with Acquisition of VMware

Analyst: Mike Kahn

“The only way to win is by changing the rules” is a lesson often taught in business schools, and on the battlefield. Well, it was only a matter of time before this rule-changing gem was snatched up by one of the big guys, so it was not a great surprise when EMC announced today that it would acquire VMware, maker of server virtualization and other virtualization management software.¹

VMware is a critical component in many of IBM’s and HP’s server configurations, among others, especially in the hot blade server space². It is part of the *scale down* trend, to meet enterprise requirements with *less* infrastructure and *more* automated management. Even if EMC maintains VMWare as fully independent, as it has asserted, the acquisition by EMC likely will complicate IBM’s and HP’s neatly-stacked offerings that now will include part of EMC management stack. This purchase adds to EMC’s claim that it wants to be a software company, especially one that sets the rules, when it can, and wants to change the prevailing rules that it didn’t set. **With this acquisition, EMC gains an interesting perch. It is now in the heart of the Intel server business³, without being in the server hardware business. In fact, because VMware is about increasing the utilization of hardware, it can also be said that it is about rewriting the rules of server hardware investment.** Moreover, we are entering an era of bringing *processing power to the application*, rather than *bringing the application to a server*. (Think of “grid” computing as *infrastructure architecture*.) Meeting enterprise objectives is the goal and is more important than optimizing the infrastructure, but VMware helps realize both. Think of it as *application centric meets information delivery*. EMC has now moved to these higher crossroads.

Over more than a dozen years, EMC has rewritten the rules on enterprise-class disks several times, at least, on its way toward dominating this market segment. **Look for EMC’s new position in server virtualization to allow it to change the rules for servers.** with possible side effects on Intel, AMD, IBM, HP, and Microsoft (the later of which has a Windows-centric virtualization strategy). As with EMC’s storage business and its love-hate relationship with the server vendors (“got to connect to them, but don’t have to love, or even acknowledge, them”), EMC’s VMware play is an interesting step into server virtualization that may well be welcomed by some but not by all.

Look for EMC to preach the independence of its storage and server management software (as a “safe” intermediary) from those vendors that just seem to want to sell you more of their expensive hardware. And add Veritas to the list of affected vendors, because this has been their line, but they just don’t have the marketplace influence that EMC has demonstrated continually.

This acquisition forces us all to look at EMC differently. More in charge, and in charge of more. That’s what can happen when you change the rules.



¹ See **The Clipper Group Navigators** dated 9/15/2003 entitled *VMware’s VMotion Creates New IT Possibilities* and dated 4/22/2002 entitled *The Problem of Application Sprawl - VMware ESX Server is a Solution*. Both are available at <http://www.clipper.com/publications.htm>.

² For some background see **The Clipper Group Navigator** dated 10/4/2002 entitled *IBM BladeCenter - A Glimpse at the Future of Computing* and available at the web page above.

³ Think *Windows*, *Linux* and *Novell*, but also consider the possibility Solaris x86, which is now being re-emphasized by Sun.

About The Clipper Group, Inc.

The Clipper Group, Inc., is an independent consulting firm specializing in acquisition decisions and strategic advice regarding complex, enterprise-class information technologies. Our team of industry professionals averages more than 25 years of real-world experience. A team of staff consultants augments our capabilities, with significant experience across a broad spectrum of applications and environments.

➤ **The Clipper Group can be reached at 781-235-0085 and found on the web at www.clipper.com.**

About the Author

Mike Kahn is Managing Director and a cofounder of The Clipper Group. Mr. Kahn is a thirty-year veteran of the computer industry. For the vendor community, Mr. Kahn specializes on strategic marketing issues, especially for new and costly technologies and services, competitive analysis and sales support. For the end-user community, he focuses on mission-critical information management decisions. Prior positions held by Mr. Kahn include: at International Data Corporation — Director of the Competitive Resource Center, Director of Consulting for the Software Research Group, and Director of the Systems Integration Program; President of Power Factor Corporation, a Boston-based electronics firm; at Honeywell Bull — Director of International Marketing and Support; at Honeywell Information Systems — Director of Marketing and Director of Strategy, Technology and Research; with Arthur D. Little, Inc. — a consultant specializing in database management systems and information resource management; and, for Intel Corporation, Mr. Kahn served in a variety of field and home office marketing management positions. Earlier, he founded and managed PRISM Associates of Ann Arbor, Michigan, a systems consulting firm specializing in data management products and applications. Mr. Kahn also managed a relational DBMS development group at The University of Michigan where he earned B.S.E. and M.S.E. degrees in industrial engineering.

Regarding Trademarks and Service Marks

The Clipper Group Navigator, The Clipper Group Explorer, The Clipper Group Observer, The Clipper Group Captain's Log, and "*clipper.com*" are trademarks of The Clipper Group, Inc., and the clipper ship drawings, "*Navigating Information Technology Horizons*", and "*teraproductivity*" are service marks of The Clipper Group, Inc. The Clipper Group, Inc., reserves all rights regarding its trademarks and service marks. All other trademarks, etc., belong to their respective owners.

Disclosure

Officers and/or employees of The Clipper Group may own as individuals, directly or indirectly, shares in one or more companies discussed in this bulletin. Company policy prohibits any officer or employee from holding more than one percent of the outstanding shares of any company covered by The Clipper Group. The Clipper Group, Inc., has no such equity holdings.

Regarding the Information in this Issue

The Clipper Group believes the information included in this report to be accurate. Data has been received from a variety of sources, which we believe to be reliable, including manufacturers, distributors, or users of the products discussed herein. The Clipper Group, Inc., cannot be held responsible for any consequential damages resulting from the application of information or opinions contained in this report.